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*Sarah Cunningham. The Times. London (UK): Aug 8, 1998. p. 6*  
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**Nationwide home grocery service begins**

Anonymous. **Supermarket Business**. New York: Sep 1997. Vol.52, Iss. 9; Part 1. pg. 9, 1 pgs

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**Full Text** (155 words)

*Copyright Howfrey Communications, Inc. Sep 1997*

A privately held New York firm launched the first nationwide home shopping service for groceries on the World Wide Web.

NetGrocer, Inc. sells only non-perishables and provides [Federal Express](#) delivery in two to four days to any location served by [FedEx](#).

Shoppers order items by clicking on color pictures of them to compile a list. NetGrocer said it sells both national and value brands at competitive prices. Payments are made by credit card, and the only charge beyond the cost of the groceries is for delivery.

Shipping costs \$2.99 for the first 10 pounds and 99 cents for each additional 10 pounds. The company said delivery of the typical order won't cost more than \$6.

Customers with regular replenishment needs can place standing orders to be delivered at specified intervals.

There is a frequent buyer program that will award customers points for NetGrocer rewards or airline travel based on purchases.

The Web site is [www.netgrocer.com](http://www.netgrocer.com).

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# FORTUNE

## Virtual mall: A guide to Websites for consumer services

*Bill Marbach. Fortune. New York: Winter 1998. pg. 262, 4 pgs*[» Jump to full text](#) [» Translate document into:](#) [» More Like This](#) - Find similar documents

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Author(s): [Bill Marbach](#)

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### Abstract (Document Summary)

The Internet is rapidly becoming an essential tool for electronic commerce. Merchants that set up a virtual shop online have several important advantages, including unlimited shelf space, 24-hour accessibility, and a global audience. The Internet makes it possible for retailers to boast a virtually unlimited inventory, but it also provides a platform for smaller, more specialized retailers to reach a larger audience. Several online services, such as [Microsoft's Expedia](#) and the Internet Travel Network, provide airline ticket sales as well as reservations for hotels and rental cars. Autosite allows car buyers to narrow their search before visiting car dealers, and sites like Autoweb Interactive and Carpoint direct consumers to affiliated dealers that have a particular car in stock.

Full Text (1888 words)

Copyright Time Incorporated Winter 1998

[Headnote]

A GUIDE TO WEBSITES FOR CONSUMER SERVICES

Shopping hasn't changed too much since strip malls transformed the roadsides of America. Catalogs, which have been around for a century, are convenient, but for most of us shopping still means getting in the car and heading for the mall. Now there's another option. With a few clicks of the mouse, it's possible to surf around the Web and buy anything from a bottle of wine to a new car, without ever leaving the house.

22 36.80

Merchants that set up a virtual shop online have several important advantages over their counterparts who build stores in the real world-unlimited shelf space, 24-hour accessibility, and a global audience. The Internet, once a little-known government/academic research network and hacker's playground, is rapidly becoming an essential tool for electronic commerce.

It's no surprise that the first successful merchants on the Net are either selling products that are known commodities, such as books, CDs, or cars, or are capitalizing on well-established brand names. [L.L. Bean](#), [Lands End](#), J.Crew, and [Sony](#) have all posted their wares on the Net.

When it comes to payment however, most Internet retailers still work the old-fashioned way-customers provide their credit card numbers and are billed accordingly.

One of the pioneers in electronic shopping is [Amazon.com](#), a Seattle-based company founded to sell books via the Internet. Books are ideal candidates for Web retailing because only a computer can keep track of the profusion of new and old titles. [Amazon.com](#) was the first to hit this market in a big way, and right now it's the best online bookstore. Amazon's selection includes nearly every book in print as well as a million out-of-print titles. This is more than fourteen times as many books as the largest physical superstore, making it a good bet that Amazon will have what you're looking for.

#### [Photograph]

But behind the scenes Amazon doesn't actually have aircraft hangars full of books in inventory. What it really is-like other merchants on the Web-is a collection of powerful computers, some networking gear, a giant, fast database, and a Web address. Amazon keeps only a small percentage of its books-mainly the best-sellers-in its physical inventory. For the rest, it serves as a very efficient middleman, taking your order and relaying it to the book distributors and publishing houses.

Amazon's success has attracted competition from established retailers. [Barnes & Noble](#), the largest bookstore chain, has launched an online shop of its own. It stocks only about a million titles, but B&N has taken the lead in trying to duplicate, in cyberspace, the experience of visiting a bookstore. People generally like browsing through a bookstore, after all. With this in mind, B&N offers everything but cappuccino to its online community. Readers can post comments on a variety of book-related topics or engage authors in live chat sessions every day. They can even get personalized book recommendations using innovative 'agent' technology, developed by Firefly Network of Cambridge, Mass. The software asks you to rate a list of books you've read on a scale of one to seven and then gives you suggestions of other books you might like.

#### [Photograph]

##### One for the Little Guy

The Internet makes it possible for retailers to boast of virtually unlimited inventory, but just as important, it provides a platform for smaller, more specialized retailers to reach a larger audience. Computer Literacy, a Silicon Valley book chain, can't compete with the big guys online in terms of overall selection, but it does offer an expertise on computer books that can't easily be found anywhere else. At its store on the Web, customers across the country can find just the right volume for their computing needs. Another specialty shop, Virtual Vineyards, offers an extensive selection of wines-as its name implies-as well as a host of specialty foods, from biscotti to caviar. And Golf.com has everything from a well-stocked pro shop to information about golfing trips and real estate listings for those who want to live within putting distance of a course.

For some better-known retailers, the Internet is simply a natural extension of their business. The multibillion-dollar clothing catalog business is one. [L.L. Bean](#), [Lands' End](#), [REI](#), and J.Crew are selling directly online. The selection varies. J.Crew has started with a few items available each season that get full display on the Website, though you can also order from the catalog if you have it handy by typing in the order numbers for the merchandise you've selected. On the other hand, [REI](#) has already put practically its entire store of mountaineering and sporting gear on its site.

Because these merchants already offer 24-hour operators and speedy shipment with their paper catalog services, there's actually not much added convenience to buying these items over the Web. But the Internet also offers



retailers the opportunity to provide services that were previously impossible with traditional catalogs. [Lands' End](#), for one, has a section devoted to discounted overstocks that is updated weekly, something it can't do with catalogs that only come out every month or two.

### Web Wonders

Others are searching for similar strategies that take advantage of the unique capabilities of the Web. In the music business, [CDnow](#), which carries nearly every compact disk imaginable, is using its Website to accept orders for some albums before they are released and shipping them so that they will arrive on customers' doorsteps the same day the album first hits the stores. NetGrocer, a nationwide Web grocer, will set up recurring orders for staple goods. Every few weeks, the paper towels and pasta arrive on the schedule you've set, though you probably don't want to buy perishables this way.

The Internet has already made it easier to purchase a wide variety of products-you can rent a movie, find a toy, or send a bouquet of flowers with ease on the Web. But it is also changing the way goods and services are sold at a more fundamental level, giving consumers access to information that has otherwise been hard to find.

Booking airline reservations is a good example. Such transactions traditionally have been conducted through a travel agent, with all the vital information-flights, prices, seats-hidden from the traveler at the other end of the phone line or across the agent's desk. Online travel agencies turn things around, giving the important details directly to the travelers so they can compare and evaluate all the information before making a choice.

There are several online services that provide airline ticket sales, as well as reservations for hotels and rental cars. The sites range from [Microsoft's Expedia](#), which is packed with snazzy content like 360-degree panoramic photographs, to the Internet Travel Network (ITN), whose sparse site boasts an uncluttered route to airline tickets. For travelers not quite ready to give up their regular travel agent, both ITN and Travelocity offer the option of doing the research online and booking through an affiliated agency. Business travelers should also check out [Biztravel.com](#), which enables customers to make reservations for airline tickets, car rentals, and hotels that automatically maximize frequent-flyer reward programs.

The major travel sites all use the same ticket reservation systems employed by the travel agencies, so they will often find the same flights at the same prices-but not always. In one recent instance, [Expedia](#) found what appeared to be the last remaining open low-fare seat on a cross-country flight while the others could only offer much more expensive or less convenient options for the same trip. This is not to say that [Expedia](#) always finds the best flights, but you could benefit by checking several sites before making a purchase. Another good tip is to write down the phone number and ticket information when ordering from one of these sites. If the Website's server is down or the network is congested, making it difficult to get back to the site to confirm a reservation or update travel plans, it's nice to have the customer service number handy.

Virtual Tire-kicking Buying a car is another shopping task primed to be revamped by the Internet. No one relishes slogging from lot to lot, looking for the right car, all the while wondering if the 'super deals' are really such a bargain. But the wealth of automotive information available on the Web, at sites like Autosite, enables you to narrow your search before setting foot out the door. Autosite and others will provide dealer invoices and pricing details so that you have a good idea how much the car should cost before visiting a dealership.

Several companies have gone further, enabling you to initiate-and in some cases, complete-the purchase of a car online. Sites like Autoweb Interactive and Carpoint will direct you to affiliated dealers who have the car you want in stock. Manufacturers are getting into the game, too. [General Motors](#) has launched an online buying service in four western states. However, like other manufacturers selling directly on the Web, it can't match the selection at other sites because it only sells its own models. For serious car buyers who are ready to make a purchase, AutoBy-Tel acts as a broker, matching them with dealers who have the new or used car they want. The Auto-ByTel dealers are prompt in response to electronic purchase requests, and there's a strict no-haggle rule in effect, a boon for those who prefer not to bargain.

Whether selling cars or chardonnay, retailers in the virtual mall still face some of the same challenges they do in the physical world. If they don't already have a well-established brand, they have to build a successful one quickly on the Web, as [Amazon.com](#) did. And for consumers, finding the right online store in the foggy reaches of cyberspace can be as tiresome as driving all over town. A few extra minutes spent using a search engine can help sift through all the commerce sites to find the truly worthwhile ones.

Shoppers need to be reassured about the safety of buying online, too. Most sites use encryption technology to protect your credit card number while in transit, though there hasn't been a reported case of a number being pirated while traversing the Internet. It's much more important to trust whomever you're giving the credit card number to. So stick to companies you're comfortable with. Remember, the same cautions apply whether you're shopping the virtual mall or visiting the department store across town. []

**[Sidebar]**

## THE CHECKLIST

**[Sidebar]**

## Electronic Commerce

**[Sidebar]**

Do your research The Web is a great tool for finding information about a product even if you don't make the purchase online. You can find out which product is right for you and how much you should be paying for it.

Start small Start your online purchases with something small like a book or a CD. Once you get comfortable with the process of electronic commerce, you can move up to the Alaskan cruise package or a new sports utility vehicle. Shop around You wouldn't buy a new stereo without checking a few prices first, and it's no different on the Web. A good search engine can help you do a little comparative shopping before you buy. Be sensible There's little chance your credit card number will be stolen online, but use some precautions. Look for merchants using an encryption technology like SSL and always have a good idea of who's on the receiving end of your electronic order.

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### **NetGrocer now open for business - online grocery shopping**

Laura Liebeck

NEW YORK - A new player in the on-line grocery business is offering a unique calling card to cyber shoppers: the only nationwide on-line source for direct-purchase non-perishables.

NetGrocer, the nation's first retail cyber grocer, went on line July 21 after a three-month test period. Based in New York, NetGrocer offers 2,500 skus of only non-perishable groceries for a delivery cost of \$2.99 for the first 10 lbs. and 99 cents per every additional 10 lbs. There are no immediate plans to offer perishables.

The idea for NetGrocer was conceived two years ago by Uri Evan, ceo of USA Detergents, who along with Fred Adler, a USA Detergents board member, approached Dan Nissan, senior vice president of Vocaltec (the creator of Internet Phone), which enables people to have free phone service over the Net, and Rich Falcone, chief financial officer of Bed Bath & Beyond. Nissan is NetGrocer's president and ceo, and Falcone is the company's cfo, Nissan told DSN.

The group then partnered with Federal Express, which handles the delivery, aspect of NetGrocer, and American Airlines, which manages the distribution center under subsidiary American Airlines Distribution Services.

NetGrocer was formed with the ultimate goal of developing a new type of distribution channel for the consumer direct market.

"We wanted to create a long-term relationship with consumers and to be the first national retailer to the home," Nissan said. "The whole concept is to provide solutions and systems for consumer direct initiatives," he added, noting that NetGrocer is unique in the marketplace. It is unlike Peapod and Streamline, which are shopping services. "This is a nationwide retailing operation. We have re-engineered the efficiencies in the food supply business."

NetGrocer aims to be an everyday low price retailer, saving consumers 5% to 10% on their typical grocery bills. Nissan explained that NetGrocer is able to keep prices low via its vendor relationships, unique character of its product mix and the services provided by its FedEx and American Airlines partnerships, each of which provide a level of expertise not previously available in the market.

Unlike most supermarkets that offer 30,000 to 40,000 skus of perishable and non-perishable products aimed at local markets, NetGrocer offers just the fastest moving goods that appeal to a nationwide customer base, Nissan explained.

The founders worked with IRI and Nielsen for an analyzed movement of products in the stores, the target customer and how that consumer buys before determining which products to offer. The list of available goods was determined internally based on that data and on the needs of NetGrocer's target customer: young households (30- to 45-year-olds with kids) with incomes of \$45,000 to \$50,000 -- fairly typical Internet users.

The target customer also includes senior citizens and office environments. NetGrocer offers a specific shopping list of products aimed at its corporate clientele called Corporate Cupboard. This service, identified with a icon on the company's home page, features such items as coffee, creamer, toilet paper and cleaning supplies, goods typically purchased for an office.

All of NetGrocer's products are reviewed frequently, almost daily, to be sure they are in demand and priced right. Nissan said.

The program is flexible, he noted. meaning if a product is not selling, it can easily and quickly be replaced.

After the items were selected for inclusion in its cyber store, NetGrocer then approached the manufacturers to develop a working relationship.

Electronically, NetGrocer can be accessed under its name: [www.NetGrocer.com](http://www.NetGrocer.com). Shoppers need not establish an account with NetGrocer. All that is needed to shop is a major credit card.

When shopping, customers may choose from 17 different merchandise categories, such as Baby, Baking, Snacks or Net Specials. All orders are delivered through FedEx. A special limited-time offer of free delivery is now in place for customers who order more than \$25 worth of goods.

Special services are being developed, which so far include weekly awards of \$100 on groceries to shoppers -- four winners are chosen weekly and then their e-mail identifications are listed on site. NetGrocer also offers shoppers the ability to earn "Net" currency by earning "free ride points."

They get this by ordering featured products. During July, free ride points were doubled.

Shopping NetGrocer is much like other on-line food services; shoppers click on the product aisle they want, review the selection (there are 21 different alternatives in diapers, for example) and select the one they want to place in their shopping cart. Specials of the week flash on the left. Most of the items available on NetGrocer are popular name brands. However, there are some private label goods offered to NetGrocer by its supplier, White Rose.

NetGrocer is also attempting to make the shopping experience entertaining. Little sayings such as "Stop Pushing Your Shopping Cart, Start Pushing Your Mouse" and "Go Ahead Shop Naked, No One is Looking" were created in-house specifically to make on-line shopping fun.

Featured products provide shoppers with a selection hints. They can review a product for size and price, as well as calorie and fat content, among other information. All products offer customers full-color photos on packages.

All purchases, credit information and shopping lists are protected with specially created user names picked by the shoppers and with special software programs, according to NetGrocer's Web site.

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[Abstract](#), [Full Text](#)**Online grocery shoppers different out here: Vancouverites use the service because they have better things to do with their time. They're also healthier shoppers.; [Final Edition]***Peter Wilson. The Vancouver Sun. Vancouver, B.C.: May 7, 1998. pg. D.14*[» Jump to full text](#) [» Translate document into:](#) [» More Like This](#) - Find similar documents

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**Abstract (Document Summary)**

"In Toronto, when people are shopping online they do it because they hate standing in line and they hate traffic," said Bob MacKalski, The PeachTree's marketing director whose company already has associated stores in Toronto, Winnipeg and on Vancouver Island.

[Cori Bonina] says that going on the Internet hasn't been that much of a jump for Stong's because the store already take orders by fax and phone for a \$10 fee that covers the time of a personal shopper to select the items and for packing and delivery.

MacKalski says there will not likely be an initial huge upsurge of orders for Stong's, which had received 12 at the time this column was written.

**Full Text (785 words)***(Copyright The Vancouver Sun 1998)*

When it comes to online grocery shopping, Vancouverites are a different breed.

For one thing, we're not buying half a dozen frozen chicken dinners on the Internet just because we hate standing in line.

No, we're mousclicking our order into our Internet browsers because we have better things to with our active lives than wheel a grocery cart down crowded aisles.

And, as a matter of fact, we're unlikely to order those frozen dinners in the first place.

What Web-savvy West Coasters want -- bless their health-conscious, earth-first little souls -- is organic fruit and vegetables.

These are just some of the things that Montreal-based The Peachtree, a network of online grocers, has discovered as it brings its Web-based service to Vancouver through Stong's Markets' at [www.stongs.com](http://www.stongs.com)

"In Toronto, when people are shopping online they do it because they hate standing in line and they hate traffic," said Bob MacKalski, The PeachTree's marketing director whose company already has associated stores in Toronto, Winnipeg and on Vancouver Island.

"In Winnipeg people do it because they hate the cold. In Vancouver they say they'd rather take the kids to the park or go to the baseball game. It's a subtle difference, but it's there."

And we're flocking to the service much faster than others. Just six days after Stong's April 29 online debut there were 315 people registered. In Winnipeg, by contrast, it took a year to get 1,300 people registered.

"From the orders received it seems that Vancouverite online shoppers eat healthier than other Canadians," MacKalski said. "There are a higher percentage of organic products ordered and a higher percentage of requests for organic products."

As well, the orders are larger, with the average being \$150, compared with \$110 or so in other Canadian cities where The PeachTree operates.

Cori Bonina, Stong's general manager, says her sense is that those who want the online service are working families, those with single mothers or working mothers.

"And we've had quite a few single men register because they don't like to shop as well as people with mobility problems."

(One oddity: Even though Stong's doesn't serve the North Shore through its online service, that's where a large number of the registrations are coming from. Bonina hopes to add the North Shore to the service for delivery at least one day a week.)

Bonina says that going on the Internet hasn't been that much of a jump for Stong's because the store already take orders by fax and phone for a \$10 fee that covers the time of a personal shopper to select the items and for packing and delivery.

(In Toronto the delivery fee is hidden in a higher price for the groceries, says MacKalski, a former Winnipegger who he believes that Westerners want their fees stated openly and up front.)

One advantage of shopping online, Bonina says, is that if you have regular items you order then you can keep a shopping list stored online that will always include these items.

MacKalski says there will not likely be an initial huge upsurge of orders for Stong's, which had received 12 at the time this column was written.

"This is a small market, a niche market. You hear a lot of hype but really there's a small market for online grocery shopping that grows steadily. In a sense we go after one customer at a time."

MacKalski says that experience in other cities has shown that there's generally an upsurge in shopping in the fall.

"In September, October and November there's generally a jut up, where orders will double and then will stay that way through the summer."

He's unsure whether this will be the same in Vancouver but he is certain of one thing.

"We have a very high loyalty rate. Grocers in other parts of the country say it's higher for online customers than it is for those who come into the store."

For Bonina, who accepts payment in cash, cheque or credit card (but not directly online via credit card yet), the personalized Web service is a way of differentiating Stong's from its bigger competitors, although she does expect competition eventually.

MacKalski, however, says the major chains have other priorities.

"By its nature, online shopping isn't suited to the large chains. They compete by getting the inventory turned over quickly and use their buying power to compete on price."

Not only is there extra cost involved in providing online shopping, he adds, but there is also the fact that those who buy on the Web are more demanding. They want service a couple of notches up from the normal customer.

"And that will cater to the small store that wants to compete on service."

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Tactics major retailers used during the holiday season to generate on-line sales are discussed. [Hallmark Cards Inc.](#) used free offers to lure serious shoppers on-line. Visitors to the site could design and publish an on-line holiday newsletter for friends and family members. In contrast, [Lands' End Inc.](#) provided shoppers with a marketing-oriented, electronic greeting card service for the holidays. Although the selection was limited to 9 designs, recipients were allowed to generate even more electronic greetings.

**Full Text (1022 words)***Copyright American Marketing Association Jan 19, 1998*

Internet commerce was alive and thriving during the 1997 holiday shopping season. Pundits predicted \$1 million in sales for Internet merchants during the fourth quarter of 1997 and \$2.4 billion for the entire year. Major retailers such as [Hallmark](#), Macy's and Bloomingdale's have on-line "stores" that combine the convenience of home shopping with the selection available at a mall.

As these familiar names enter the Internet market, they bring a sense of safety and assurance to wary shoppers who may have avoided on-line transactions out of fear of computer crime. While some shoppers may still hesitate to entrust their credit card numbers to an unknown Internet vendor, they seem more willing to shop online with a nationally advertised retailer such as Hoffman Estates, Ill.-based [Sears, Roebuck and Co.](#)

What kind of tactics did these major players use during the holiday season to generate on-line sales? Well, when shoppers located the [Sears](#) site, they were met with blinking holiday lights and the proclamation, "Come see the merry side of [Sears](#)."



In addition to the expected directory of store locations and lists of gift ideas, the site also provided an interactive holiday planner and pages of holiday sanity-saving tips. Youngsters were offered free membership in the Craftsman Kid's Club and a printable "Personal I.O.U." gift certificate that kids could customize with tasks they'd be willing to do for their parents.

①Hallmark Cards Inc. in Kansas City, Mo., also used free offers to lure serious shoppers on-line. Visitors to the site could design and publish an on-line holiday newsletter for friends and family members. Designing the newsletter was simply a matter of selecting a background image, a header, footer, font and color. Visitors could type in as much text as they wanted, and the resulting newsletter looked professionally done.

Of course, because the newsletter could only be viewed on the ①Hallmark site, more traffic and sales were generated for ①Hallmark. The site also provided a selection of 1,000 free electronic greeting cards that senders could program for future delivery.

Surprisingly, though, ①Hallmark didn't offer a simple way for recipients of these cards to send similar messages to their relatives and acquaintances. In fact, the recipient wasn't even offered an opportunity to explore the ①Hallmark site where the electronic greeting originated.

In contrast, ①Lands' End Inc. in Dodgeville, Wis., provided shoppers with a marketing-oriented, electronic greeting card service for the holidays. Although the selection was limited to nine designs, recipients were allowed to generate even more electronic greetings. ①Lands' End also made it easy for card recipients to peruse the commercial areas of the site.

Taking a tip from daytime television, ①Lands' End used an additional interactive traffic-generating concept: a streaming-audio continuing saga with sound entitled, "Santa's Frosty Christmas." The story unfolded in weekly installments during the holidays to encourage regular visits to the site. For those whose computers lacked audio capability, the text of the script was available on-line.

To help customers stretch their holiday shopping dollars, Music Boulevard developed an exclusive deal with one of its suppliers: Buy a compact-disk gift set on-line from recording studio ①Rhino Records and earn a free holiday CD with 25 tracks of music from a wide range of artists, including the Ramones, Buck Owens, the Staple Singers, Jimmy Durante and Daffy Duck. (You could even listen to a streaming-audio clip of Daffy warbling "The Christmas Song.") In addition, the site offered a total shipping charge of \$1 for any order.

Because the holidays are always hectic, especially for business professionals, some on-line merchants focused on automating corporate holiday tasks.

For example, to simplify the effort and expense involved in throwing an office party, NetGrocer offered free ①Federal Express shipping for purchases of more than \$75. The site's "Holiday Helpers" section offered food and party items ranging from cocktail onions and crab meat to curling ribbon and Hanukkah candles. There even was a "Dinner Recovery" page that featured AlkaSeltzer and Advil.

NetGrocer stocks only nonperishable items in order to offer delivery service across the country. However, for many corporate functions, preprocessed items can simplify hospitality tasks. Of course, December isn't the only month in which companies need groceries. So, NetGrocer invited visitors to register in the "Corporate Cupboard" for regular delivery of recurring orders.

On-line malls provided selection and convenience without the maddening crowds and lengthy checkout lines. For example, Choice Mall's holiday motif included evergreens with twinkling lights and a Christmas contest offering a chance to win a \$1,000 shopping spree.

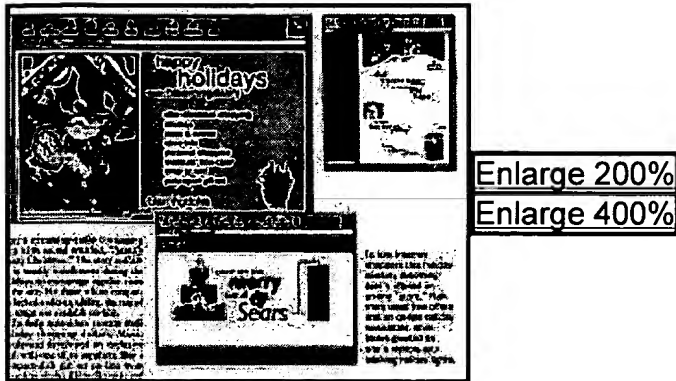
But Choice Mall did add a few touches to pattern itself after its physical counterparts. In its "Spirit of Giving" section, the site showed a bell-ringing ①Salvation Army representative ready to accept a visitor's electronic donation, as well as links to five other charitable organizations. Children could e-mail their wish lists to Santa, with the assurance that they'd get a quick reply from one of his elves. Then, to enhance the holiday ambiance, an "Electronic Stocking" section generated streamingaudio Christmas carols and provided an interactive game called "Ho! Ho! Ho!"

The companies that implemented these marketing ideas recognized the commercial opportunities provided by

holiday shopping. They probably gained a tidy share of the \$1 billion holiday dollars experts expected consumers to spend on the Internet last year.

Yet, many other commercial sites, even in December, hadn't posted even one evergreen icon.

Remember: Much of the glamour of Internet commerce lies in its dynamic nature. So, how did your Web site attract holiday shoppers?



To lure Internet shoppers this holiday season, Bloomingdale's offered an on-line "store," Hallmark used free offers and an on-line holiday newsletter, while Sears greeted its site's visitors with blinking holiday lights.

#### [Sidebar]

Web site directory The following is a listing of Web sites mentioned in J.D. Mosley-Matchett's column:

\* Bloomingdale's:

<http://www.bloomingdales.com>

\* Choice Mall:

<http://www.choicemall.com>

\* Hallmark:

<http://www.hallmarkconnections.com>

\* Lands' End:

<http://www.landsend.com>

\* Macy's:

<http://www.macys.com>

\* Music Boulevard:

<http://www.musicblvd.com>

\* NetGrocer:

<http://www.netgrocer.com>

\* Sears, Roebuck and Co.:

<http://www.sears.com>

#### [Author Affiliation]

J.D. Mosley-Matchett is an assistant professor at the University of Texas at Arlington and president of Sterling Impression Inc. An online version of this article is available at <http://www.jdmm.com/html/corporate.html> with active links to relevant Internet resources.

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Classification Codes

- 9190 US
- 8390 Retail stores, includes groceries
- 7000 Marketing

Locations:

- US

Companies:

- Hallmark Cards Inc (Duns:00-713-1113)
- Lands End Inc (Duns:02-519-7609)
- NetGrocer
- Sears Roebuck & Co (Duns:00-162-9955)

# The Distribution Industry in the United Kingdom:

## An e-business Perspective

Industry Analysis by Anthony Leong © Copyright 1998

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**Last Updated: October 22, 1998**

### Introduction

The worldwide value of electronic commerce revenues is expected to hit \$208 billion US by 2001, of which 88% will be business-to-business, according to a forecast by Forrester Research. Leading the business-to-business sector will be wholesale and retail revenues, which are expected to climb to \$89 billion by 2001. Consumer on-line revenues are expected to contribute \$25 billion US. This is a marked jump from the situation in 1997, in which the total worldwide electronic commerce revenues was estimated by Forrester to be \$10 billion US.

The Internet will have an enormous impact throughout the distribution supply chain, affecting not only the way that consumers shop, but also the way businesses acquire and distribute goods. With its relatively good telecommunications infrastructure and growing information technology base, the United Kingdom is an environment conducive to the growth of Internet business applications. However, because of the fragmented nature of the European consumer market and the economic slowdown being experienced on the domestic front, the rollout of e-business in the United Kingdom will not be easy. The task will be even more challenging for distribution companies in the United Kingdom (encompassing retail, distribution, and wholesale businesses), which have been at the mercy of slackening consumer demand, weakening export markets, increased pressure to operate 'leaner and meaner', technological innovations, and an evolving retail consumer.

Furthermore, there are numerous obstacles hindering the rollout of e-business distribution initiatives, including:

- consumer concerns (such as security and privacy)
- hurdles that businesses must overcome (such as the high cost of acquiring customers and channel conflict)
- larger issues that will have implications on the proliferation of e-business worldwide (such as taxation, encryption, privacy, and a weak infrastructure)

Fortunately, there are a number of 'best practices' being used by successful Internet businesses which are helping to overcome such e-business roadblocks.

This article will provide an overview of the distribution industry in the United Kingdom and the potential application of e-business initiatives. In addition to providing background information on the economic and communications environment, this article will identify the current state and trends of the distribution industry. The impact of e-business on the distribution supply chain will then be described, as well as the potential roadblocks businesses may encounter. Finally, a series of e-business recommendations will be made, based on best practices that are currently in use.

### Overview of the United Kingdom

## Economic Indicators

The United Kingdom's economy has seen moderate growth in recent years, marked by GDP growth of 2-2.5% per annum since 1992. GDP growth surged at the end of 1996 and this trend continued until the middle of 1997, fueled by strong growth in consumer spending and business investment. However, this strong growth became unsustainable as it quickly used up the spare capacity in the economy, which then led to skill shortages and inflation rising above the 3% mark. In response to an imminent wage-price spiral, the government instituted a series of policies, which included the controversial raising of interest rates, slowing the economy back down to a rate of sustainable growth. Despite the fiscal restraint policies, GDP growth for the first half of 1998 has been strong, hovering about the 3%.

However, the outlook is not as optimistic, given the poor performance of the manufacturing industry, which has resulted in several recent layoffs in the United Kingdom's more prominent manufacturers, such as Rover, BOC, Fujitsu, and Siemens. Because of the strong pound, the manufacturing sector has been facing a lackluster export market which has sent export orders to their lowest level in fifteen years. This downturn is being further compounded by the relatively high interest rates. 32% of manufacturing firms are expecting a drop in output for the latter part of 1998, and unemployment, which has fallen from a high of 11% in 1994 to 6.3% in 1998, is expected to head upwards. In light of recent events, there is increasing pressure on the government to cut interest rates in order to stimulate business investment and make exports more competitive in global markets.

With several high-profile factory closures and stock market upheavals weighing on their minds, the public shares this gloomy outlook. Consumer confidence has dropped to a six-year low, with 50% of people believing that conditions will worsen. The growth in consumer expenditures, which had been keeping up with the growth in GDP, is certain to slow, and several indicators had already pointed to this in the middle of 1998. In July of 1998, prior to the stock market upheavals, manufacturing activity had already been falling relative to the prior year's levels, and in August, the Confederation of British Industry's index of annual retail sales volumes reached a three year low.

Therefore, the economy of the United Kingdom is in the midst of a slowdown, brought on by a combination of global economic turmoil, a strong pound, high interest rates, and softening domestic demand. Though the Bank of England has yet to relax interest rates, it is expected sooner, rather than later, which should help improve the outlook.

## Technology Indicators

The United Kingdom is blessed with a telecommunications market that has recently become fully deregulated, making it one of the most liberal in Europe. Unlike the rest of Europe, telecommunications companies in the United Kingdom do not charge by the minute for Internet access, making Web surfing relatively inexpensive. The information technology base has also been growing steadily, though the penetration of advanced Internet technologies still trails behind that of North America and some of the United Kingdom's Nordic neighbours. According to market research firm INTECO Corporation, the number of PCs in homes and businesses is estimated to be on par at 10.6 million in 1998, though PC penetration into the home has been growing over twice as fast as businesses (28% vs. 13.7%).

With respect to the widespread use of the Internet, a 1998 Internet Industry Almanac survey found that the United Kingdom has 99.5 Internet users per 1000 inhabitants, which is significantly below that of the United States (203.4 Internet users per 1000 inhabitants) and the United Kingdom's Nordic neighbors (125.6-244.5 Internet users per 1000 inhabitants). However, the situation is quickly improving, as the market for Internet services has heated up with well over a hundred Internet Service Providers (ISPs) in the United Kingdom vying for dial-up connection business.

# Overview of the Distribution Industry

## Retail

The distribution industry plays a major role in the economy of the United Kingdom. According to British Retail Consortium figures from 1997, it is comprised of over 200,000 businesses, employs more than 2.5 million people,

and contributes to 23% of the economy. In the past twenty years, the face of the distribution industry has changed radically from being composed of a number of small retailers to being dominated by a concentration of large retailers, who have introduced new formats, such as the superstore. For example, in the grocery sector, the top four supermarket chains (Sainsbury's, Tesco, Safeway, and Asda) are responsible for up to 50% of all sales. In the entire retail industry, it is estimated that the ten largest retailers account for 31% of all retail sales.

One of the reasons for the relatively high level of concentration has been the UK consumer's emphasis of store loyalty over brand loyalty. In the United Kingdom, stores possess greater brand power and develop relationships with its customers, opposite the situation in North America. Not surprisingly, private label brands in the United Kingdom enjoy the highest penetration level (36%) in any European country.

Until recently, the growth in retail sales in the United Kingdom has been relatively moderate, posting year-on-year gains between 3 and 5%, fueled by strong consumer demand and business investment. However, in the latter half of 1998, retail sales had already begun showing signs of weakening. Since then, the growth in retail sales have continued on a downward path, exacerbated by the growing worldwide economic turmoil, worsening consumer confidence, high interest rates, and an ailing manufacturing sector.

## **The Evolving Consumer**

In addition to the changing economic environment, retailers must also contend with the changing consumer. Martin Sorrell, the chief executive of the WPP Group plc, one of the world's leading communications groups, has pointed a number of consumer trends that are forcing retailers to re-examine the way they service their customers. More working women, changing work patterns, increasing shortages of free time, rising consumer expectations in quality and service, and increasing importance of manufacturer brands in the UK marketplace are making consumers demand more from the retailers they deal with.

An increasing number of shoppers can be characterized as the 'get in and get out' type of shopper. These types of consumers are driven by a shortage of time, and seek out convenience. A boom in two-income families, shift work, and an expanding work week that has cut leisure time— these have all contributed to the growth in the number of 'get in and get out' shoppers. As a result, consumers are on average spending less time on each shopping trip. Furthermore, having survived the lengthy economic downturn of the early Nineties, they have shifted their shopping paradigm from impulse buying to precision shopping. A Coopers & Lybrand study conducted in 1995 found that consumers were cutting impulse spending and were more likely to postpone a purchase than buy on credit.

## **Increased Demands on Retailers**

What this all means is that the average retail consumer today is spending less time shopping, shopping less frequently, but spending more on each shopping trip. In order to capture the increasingly fickle shopper, retailers must not only offer a greater value proposition, but must also be able to deliver it in a timely and convenient manner. Successful retailers are meeting these challenges via a number of different initiatives.

Having high in-stock rates, meeting or beating the industry standard of 98% (which refers to the likelihood that a given product will be on the shelves when a customer looks for it), is a function of how well the retailer's inventory replenishment functions are managed. Information technology is not only allowing retailers to reduce cycle times and improve service levels, but is also helping them manage their acquisition costs better by streamlining the formerly labor-intensive ordering and receiving processes.

Customer relationship marketing aims to foster customer loyalty and to develop an ongoing dialogue with a retailer's customers. Taking cues from the airline and hospitality industries, retailers have developed loyalty programs that identify and reward its best customers. For example, the supermarket chain Tesco was the first to launch a loyalty card program in the grocery sector. Through the use of the loyalty card, Tesco store managers are now able to identify and know his or her store's top 500 customers on a personal basis. These top-tier customers are not only recognized by store staff, but they are invited to special in-store events. Furthermore, they are offered a wide range of value-added incentives, such as having their cars cleaned while they shop, being able to order groceries on-line, or having access to exclusive financial services. This loyalty card strategy has helped Tesco gain consistent annual sales increases of 8% since the program was launched in February 1995, despite being in an industry that has been static since the late Eighties. Furthermore, because of the program, Tesco

usurped Sainsbury's leading position in the supermarket industry, a position that Sainsbury had occupied since 1972.

## Wholesale and Distribution

Because of the growing concentration of retailers in the United Kingdom, wholesale distribution evolved into a retailer-controlled network of regional distribution centres. For example, in the supermarket industry, most of the large chains have over 90% of their inventories channeled through a centralized distribution centre. As distribution became increasingly centralized, many retailers opted for contracting out the distribution function to third-party logistics services. This outsourcing then enabled retailers to concentrate their efforts on their core businesses. This then led to a number of dedicated distribution service firms that served clients both in the manufacturing and retailing sectors, which was unique to Europe. Thus, in its current state, distribution in the United Kingdom is a high cost and high efficiency model with a small number of large regional distribution centres.

Other factors that have shaped the evolution of distribution in the United Kingdom include rapid growth in the areas of business services, high-tech manufacturing, and international trade. These have led to more geographically-dispersed production, and an even greater need for timely delivery. This, in turn, has further accelerated the use of outsourcing for the distribution function.

The current challenge that distributors and wholesalers are up against is achieving a more efficient management of the whole supply chain, which will then reduce lead times, increase margins, increase service levels, reduce inventories, and ultimately react faster to customer needs. There is still much room for improvement with respect to meeting this goal. For example, in the typical order cycle, it has been found that the ratio between what a retailer carries and what the customer actually buys is 2:1. For wholesalers and distributors to survive, they are increasingly being called on to compete on the basis of cost, quality, and time.

## Managing the Supply Chain

Retailers, attempting to juggle the divergent goals of higher in-stock rates and lower carrying costs, are demanding smaller and more frequent store deliveries. Thus, the burden is then placed on the distributor or wholesaler to better manage transportation costs and logistics information. At the same time, retailers are demanding increased shipping accuracy to reduce retailer-level costs of detailed checking and receiving. As a result, pressure is being placed on distributors and wholesalers to reduce order cycle time and improve the flow of material along the supply chain.

The demands for reduced cycle times and increased coordination of material flows have given rise to an increased need for optimizing information flows along the supply chain. This has led to the growing use of information technology within distribution, including the application of warehouse management systems (WMS) and enterprise resource planning (ERP). With the increasing ability to closer match inventory requirements with actual consumer demand, supply chain management (SCM) has helped companies achieve reductions in both the amount of inventory flowing between manufacturers and the consumer, and the time taken to traverse the entire supply chain.

With lower inventory requirements and shorter holding times, this has had numerous effects on the economics of distribution, such as a reduced amount of warehouse space required by firms, and changes in the roles and relationships of distributors and wholesalers. More manufacturers and retailers are contracting out logistics services, and are also demanding a wider range of services from their logistics suppliers. On-time performance, service quality, speed, reliability, willingness to customize service, order cycle time, and computer system capabilities have all become key success factors in distribution. Successful distributors and wholesalers are responding to this paradigm shift by evolving.

Many distributors and wholesalers are using lean practices to drive cost out of the supply chain. The Consumer Markets Global Supply Chain survey, conducted by KPMG Peat Marwick LLP, found that significant improvements in cost, cycle time, and inventory turns were being achieved by:

- the minimal use of inventory
- pull systems

- reducing the number of suppliers
- bringing the buyer into the distribution process

For example, retailers were able to replenish in as little as six days for domestic durables and 14 days for non-durables. Higher inventory turn rates, reflecting lower inventory levels, were also reported as the result of lean practices.

There is also an increased amount of collaboration between distributors and retailers to improve supply chain performance. For example, the practice of crossdocking, in which products are moved from a supplier's truck through a distribution center and onto a store-bound vehicle without stopping in a pick or reserve area, requires extensive cooperation and communication between the players that comprise the supply chain. The KPMG study found that 96% of retailers regularly share information with their suppliers, some on a daily basis, in order to have tighter control of supply chain structures and minimize the costly effects of coordination failures. The most common means for this information sharing is electronic data interchange (EDI), though there are still about half that rely on manual order management processes, such as mail or fax.

Other distributors, particularly in the computer hardware industry, are creating customer loyalty by differentiating themselves through increased service offerings. For example, top tier hardware distributors in the United States, such as Tech Data Corp. and MicroAge Inc., are now offering more value-added services to their resellers, such as channel assembly programs (where orders are configured to customer specifications at the distributor level), help desk, technical support, and network management. This, in turn, is allowing the value-added resellers (VARs) to reinvest the saved time and costs into higher-level consultative activities.

## Use of the Internet in Distribution

The worldwide value of electronic commerce revenues is expected to hit \$208 billion US by 2001, of which 88% will be business-to-business, according to a forecast by Forrester Research. Leading the business-to-business sector will be wholesale and retail revenues, which are expected to climb to \$89 billion by 2001. Consumer on-line revenues are expected to contribute \$25 billion US. This is in marked contrast to the situation in 1997, in which the total worldwide electronic commerce revenues was estimated by Forrester to be \$10 billion US.

Within Europe, Forrester Research estimates that on-line revenues from business trade, consumer retail, and content will grow from \$1.2 billion US in 1998 to \$64.4 billion US in the year 2001. The bulk of this rapid growth will come from business-to-business commerce (\$56.7 billion US), with consumer and retail content accounting for \$4.6 billion US and \$3.1 billion US, respectively. Business trade is expected to be the engine for Internet growth, due to its focus on both regional and international markets, the introduction of the euro, and a higher Internet penetration in the business world. Within the business-to-business sector, European wholesalers will rack up \$20 billion US in on-line trade in 2001, whereas transport is expected to have limited e-commerce development at \$154 million US.

On the retail side, consumer-focused businesses will have to contend with lower Internet penetration into homes and the numerous fragmented national markets of the European continent. Thus total on-line consumer retail trade is expected to account for \$165 million US of European e-commerce revenues in 1998, and mushroom to \$4.6 billion US by 2002. This growth will primarily be fueled by the gradual decline in access costs as more European telecommunications markets become deregulated. However, other factors, such as the growing consumer acceptance for using credit cards to pay for on-line transactions (especially by veteran Internet users), and the increasing bandwidth through new Internet connection devices (cable, satellite dishes) and faster modem speeds, are also expected to contribute to this growth.

Forrester Research has also suggested some creative approaches to building a consumer-focused on-line business in developing European markets:

- Since more Europeans have Internet access at work, businesses should tailor products and services to appeal to an office-based audience. For example, grocers in the United Kingdom experimented with selling groceries on-line to people at work: Waitrose to ICL employees, Sainsbury's to HP employees, and Safeway to IBM employees. Orders placed over the Internet by the employees would then be dropped off at the end of the working day in the office car park.

- An approach for countering the fragmented nature of the European market would be to aggregate demand at an on-line trading hub or having an e-business with a global focus.
- To counter the low penetration of the Internet into European homes, some companies are getting their customers on-line by providing inexpensive Internet access and then levying fees or cross-selling services. In the United Kingdom, grocery retailers Tesco and Nationwide are selling branded Internet connections from British Telecom. By owning the entry point on to the Internet, these grocery retailers are able to place their content in front of consumer's every time they log-on, and open up the possibilities for future commercial opportunities, such as on-line shopping or banking.
- The leaders of European on-line retail commerce will have to justify the expense of going on-line by offering value-added service. By augmenting the on-line transaction with richer support offerings, the consumer will be able to earn back the added cost of on-line access.

According to a Datamonitor study conducted in 1997, over 9% of on-line homes in the United Kingdom have made on-line purchases. This percentage is estimated to grow to 36% by 2002. However, the acceptance of on-line purchases has been found to vary dramatically depending on the product category. For example, the groceries is one of the more developed sectors with respect to conducting e-business. A survey conducted by the Institute of Grocery Distribution in May of 1998 found that nearly 40% of the United Kingdom's 2.83 million Internet users have shopped for groceries on-line.

In order to exploit this new channel effectively, retailers, wholesalers, and distributors must understand how the Internet will affect their respective businesses, the evolving Internet consumer, and the impact of the Internet on shopping habits.

## The Internet Consumer

As the number of these Internet consumers continues to grow in the coming years, it is important for retailers to understand who they are, why they shop on-line, how they shop on-line, and what they are buying.

### Who They Are

The latest Jupiter communications survey finds that the typical on-line shopper (as opposed to Internet user) has a median age of 33 and an average household income of \$59,000 US. 59% of on-line shoppers are single, 57% have a university degree, 30% are professionals, and 34% have children under the age of 18 in their households. However, under this broad categorization, there are several growing segments.

Women comprise 40% of Internet consumers, and their numbers are growing, as over half of the new users signing onto the Internet are women. According to the eMarketer Group, women are expected to comprise 51% of the on-line population by 2002. 75% of these women are working full-time and have an average annual household income of \$63,000. 80% of these women surveyed by the e-tailing Group stated that they believed it to be more convenient to shop on-line and appreciate the 24x7 availability of on-line shopping services. Jupiter Communications predicts that female consumers will spend \$3.5 billion on-line for groceries, apparel, and books by the year 2000. As a result, this demographic group is being increasingly targeted by marketing organizations.

A second significant target group of Internet consumers are children and youth under the age of 18, also known as the Baby Boom Echo (all children born between January 1977 and December 1997), which includes approximately 30% of the population. Despite their limited disposable income, they do exert enormous purchasing clout by having an influence on many family purchasing decisions, which is purported to be 20 cents on every dollar that is spent. Furthermore, their numbers are expected to increase significantly in the coming years. For the first time since 1978, the number of teenagers is expected to rise in 1998 and grow 25% by the year 2010. This demographic shift should be of note to retailers, whether on-line or off-line, as these teen consumers have disposable income with few responsibilities. Another boon to on-line retailers is the fact that this demographic group has the greatest access to interactive digital technologies, primarily via the Internet, which is why author Don Tapscott has coined them the 'Net Generation'. Because of their unprecedented access to information, the Net Generation is more analytical, media-savvy, and informed than previous generations. Furthermore, today's under-26 computer users, who are already twice as likely as most baby boomers to buy on-line, are moving in to their prime shopping years. So not only are their numbers growing, but they will be buying more in the years to come.



Baby Boomers, the parents of the Net Generation, are currently an untapped market. These Internet users, between the ages of 35 and 50, comprise 15% of all Internet users, and also control a disproportionately large share of disposable income in the country. However, as a whole, they tend to spend less of their income on retail goods and services, and more on family purchases, such as vacations, college funds, move-up homes, cars, and investments.

Seniors, those over the age of 50, tend to be late adopters of technology, and their exposure to the Internet is primarily through the use of e-mail and on-line chat. A survey conducted in 1998 by @plan in conjunction with the Gallup Organization, found that there are more than 4.3 million active Internet users aged 55 and older worldwide. Furthermore, this group tends to have the greatest net worth, and have generally have made most of their big-ticket purchases. 40% of those surveyed reported a household income of \$75,000 US per year, while 26% reported an annual income in excess of \$100,000 US. With higher-than-average disposable incomes, this group has shown a higher-than-average propensity to shop on-line. They are 39% more likely to purchase books on-line, 85% more likely to buy business equipment on-line, and 27% more likely to buy investments on-line than the average Internet user.

### **Why They Shop**

Internet shopping is being driven by a number of factors. A PointCast survey, conducted in 1998, uncovered the reasons for on-line shopping to be convenience (66%), avoidance of crowds (44%), prices (42%), the ability to purchase items not available locally (39%), selection (26%), speed, and delivery (19%). An Ernst & Young survey found that Internet consumers find buying on-line a satisfying experience, citing the ease of comparison shopping (56%), on-line merchandising (52%), and ease of navigation and speed (50%). Furthermore, the improvement of overnight and second-day delivery services is also spurring the growth of Internet shopping in a similar fashion to how it aided the growth of catalog shopping in the Eighties.

This increased on-line shopping activity also seems to be cannibalizing existing shopping habits, according to the "Consumer On-line Shopping Report" from CyberDialogue Inc. Among those surveyed who had purchased on-line, 23% said that the Internet decreased the time they spent shopping, 19% said they shopped less at stores, and 14% reported using mail-order catalogs less.

Some retailers are even discovering that the increased convenience of an on-line sales channel is attracting customers that they normally would not. For example, computer direct-marketer Dell (<http://www.dell.com>) is finding that 80% of consumers and half of small businesses that purchased from their web site had never purchased from Dell before, and 25% of these consumers said that if not for the web site, they would not have made the purchase. Among European shoppers, Dell finds that 60% of its on-line European customers are individuals or small business owners who are too busy or reluctant to call on intimidating computer salesmen.

### **How They Shop**

Research is showing that the Internet is having a profound influence on how consumers make their purchasing decisions, and that it is indirectly driving a significant amount of off-line sales. In a survey conducted by Ernst & Young in early 1998, 32% of consumers with on-line access surveyed stated that they had purchased products or services on the Internet, and only 4% of consumers made more than 10 purchases per year. However, 64% of those surveyed stated that they researched products on-line and then purchased them through traditional retail channels. Furthermore, 90% of those surveyed stated that on-line research is key to making purchase decisions, and is in fact accelerating the purchase decision process. This finding was supported by an ActivMedia study in 1998 which found that when consumers were on-line, 91% were checking competing prices, while 89% were researching products or services.

When consumers actually do buy on-line, the real-world behavior of precision buying seems to be carrying over. A 1998 Jupiter/NFO survey of on-line consumers found that 77% of Internet buyers were going on-line with a specific purchase in mind, and 79% of those shoppers visited several sites before making a purchase. This finding raises the possibility for the use of shopping 'bots' in the future as a tool by which retailers can attract on-line shoppers by streamlining their comparison shopping.

### **What They Buy**

According to Forrester Research, the top-selling product categories on the Internet in 1997 were (in order of decreasing revenues): computer hardware and software, travel, entertainment (books, music, movies, games), gifts and flowers, and apparel. By the year 2001, the rankings of these product categories are predicted to remain more or less the same, with the exception of travel overtaking the lead position from computer hardware and software. Within these broad categories, Forrester estimates that PCs, pornography, CDs, and gift items (flowers) make up just over half of all on-line consumer revenues. But what determines which product categories do well, and which ones do not?

The success for on-line sales of a particular product seems to be governed primarily by three factors:

- How well the target market of the product matches the demographic profile of Internet users.
- The efficiency of using the Internet as a sales channel, such as the ease by which the sales transaction can be conducted on-line, and the proportion of shipping expenses relative to the value of the product.
- The degree of consideration required in order to make the purchase.

The list of the top-selling product categories seems to support these observations. The demographic make-up of Internet users, according to the 1998 GVO World Wide Web survey, is predominantly male (by a small margin), university-educated, with an above-average household income, and an average age of 35 years. Many of the top product categories are well-suited for this audience, such as computer-related products, travel, and entertainment.

Items that make efficient use of the Internet as a sales channel include computer products (for example, software can be downloaded instead of shipped, and computers are of sufficient high value that the shipping expense becomes almost inconsequential), entertainment, apparel, and travel.

Finally, the more difficult and time-consuming it is to purchase a particular product, the better a fit it is with on-line selling, since the Internet can add tremendous value to the decision-making process. In addition to providing the consumer with product information and support services, an on-line retailer can act as a filtering mechanism to help consumers wade through the numerous offerings. Travel purchases are an example of where the Internet can add value by helping customers sort through the numerous routes, air fares, and travel packages available. Gift items, such as flowers, is another area where the Internet excels in supporting customer decision-making— for example, GiftOne (<http://www.giftone.com>) makes recommendations to its customers for gift-giving occasions.

## Effects on Retailers

With the explosion of Internet retailing, a number of Internet retailing business models have emerged: dynamic catalogs, dynamic auctions, and more recently, the dynamic bid.

### Dynamic Catalogs

A retailer's real-world storefront can be conceptualized as a catalog. Like the traditional bound-paper catalog, the physical store is expensive, limited in selection by the amount of physical space available, offers the same experience for every customer, and is difficult to change at a moment's notice. However, on the Internet, all these physical constraints are removed, and the storefront becomes a dynamic catalog, which can be made more customized, interactive, and scaleable for each visitor. For example, each identified customer can be given a custom catalog which will offer product selection and pricing tailored to their interests and purchasing history, such as CDNow's (<http://www.cdnow.com>) 'My CDNow' program, in which a customer can set up their own personalized page on the site, tailored to their own preferences.

### Dynamic Auctions

The Internet is making the auction process more open, giving everyone equal visibility to descriptions, asking price, last offer, and time remaining. Sellers are better able to capture the momentum of the participants, as bidders are able to react instantly to each other's actions. Taking advantage of the added interactivity are two emerging auction models: third-party and proprietary/in-house auctions.

In the third-party auction, an auctioning company takes a business' surplus merchandise on consignment and sells them to the highest bidder. This type of auction is typically open to more buyers because of the greater emphasis placed on site promotion, bringing in more potential buyers, which in turn can lead to higher selling prices. On the other hand, the auctioning company charges a fee for the service, and the business ultimately loses control over the auctioning process. The majority of auction sites on the Internet target retail consumers, such as Quixell (<http://www.quixell.co.uk/main.shtml>), though there are some examples of business-to-business third-party auction sites. FastParts (<http://www.fastparts.com>) allows OEMs, contract assemblers, parts manufacturers, and distributors trade electronic components on-line via an auction process.

The proprietary/in-house auction is designed to cement the relationship between a business and its traditional customers. Because of the absence of any third-party fees, customers can realize deeper discounts than in a third-party auction. However, for the business, there are extra costs associated with the establishment and maintenance of the site. Furthermore, the business must place effort in the tasks of attracting the audience and keeping the auctions supplied. Computer reseller Ingram Micro's (<http://www.ingram.com>) auction site, which is only open to its existing customers, would be a business-to-business example of this type of auction site, whereas Egghead's Surplus Auction site (<http://www.surplusauction.com>) would be one that targets the retail consumer.

### **Dynamic Bid**

This more recent retailing model, also referred to as a 'reverse auction' has been patented by Priceline.com (<http://www.priceline.com>). This 'buyer-driven' electronic commerce model is a unique approach to on-line business in which consumers submit a bid to buy goods or services from unknown sellers at a certain price, and guarantee the bid with their credit card. Priceline then presents the offer to sellers, who can then fulfill, reject, or counteroffer the consumer's bid. Once a matching seller is found, the transaction is processed automatically and irreversibly.

### **Effects on Wholesalers and Distributors**

The use of the Internet by wholesalers and distributors in the future will vary depending on the industry sector. For example, it is predicted by Forrester Research that in 2002, 30% of large-sized and 15% of medium-sized wholesalers and business retailers in electronics, office supplies, and scientific equipment will have 20% of their sales via the Internet, growing from a current dollar value of \$2 billion to \$168 billion US. In contrast, because EDI is so prevalent in the transportation industry, no more than 6% of firms in that industry will conduct business-to-business transactions over the Internet, amounting to little over \$300 million US in revenues.

However, the greatest impact that the Internet will have on the wholesaling and distribution industries is the emergence of new intermediaries that will act as 'information warehouses'. In addition to distributing goods across the supply chain, these information warehouses will also manage the information flow between manufacturers and retailers. By aggregating information from the manufacturers, these new intermediaries will allow retailers to search, create, and compare various offerings all in one place. Furthermore, these information warehouses will form deeper service-oriented relationships with retailers, working with them to ensure the right mix of products and services, as well as helping to manage the order and logistics activities of the retailer.

### **Collaboration and Supply Chain Management**

The Internet is serving as a tool for assisting wholesalers, distributors, and retailers as a new means by which to coordinate the movement of products along the supply chain. The adoption of this business-to-business electronic commerce is being driven by the lower purchasing costs, reductions in inventories, lower cycle times, more efficient/effective customer service, lower sales/marketing costs, and new sale opportunities afforded by this new channel. While this type of coordination has traditionally been done with manual order management processes, and more recently with EDI, the Internet is providing a more cost-effective and more easily adaptable vehicle for collaboration. The key communications technology criteria needed for electronic supply chain management to work are a common physical communications infrastructure, common data representation, guaranteed data integrity, fault-tolerant communication systems, secure message transport, predictable performance, and guaranteed user authentication. Unfortunately, while the Internet meets the first two criteria, there is still much work to be done in order to meet the last five.

Businesses began sending and receiving purchase orders, invoices, and shipping notifications electronically by EDI in the late Seventies, and it gained significant market acceptance, especially among the larger companies with established supplier networks. Today, businesses trade over \$150 billion in goods and services using EDI over value-added networks (VANs), and typically save themselves 5-10% in procurement costs. Furthermore, according to a survey conducted by Computer Economics, 59% of companies report a positive return on their EDI investment, and only 19% report a negative return. For example, RJR Nabisco estimates that processing a paper purchase order costs the firm about \$70 US, whereas an EDI order costs only 93 cents.

However, traditional EDI required the use of VANs, which were expensive to set-up and maintain, depending on the amount of data transmitted. This high cost acted as a barrier to its rollout among smaller companies. However, the Internet's extensive industry support, low cost, and easy internationalization make it an ideal and cost-effective alternative for supply chain management. Furthermore, the use of the Internet opens the door for companies to do business with new suppliers and with small or medium-sized businesses that formerly could only communicate via fax or phone.

Furthermore, the usability and accessibility of EDI channels can be vastly improved through the addition of Web interfaces. Letting users access sophisticated supply chain management systems using Web interfaces requires minimal up-front investment, is inexpensive to maintain, and is far more trouble-free than complex client/server approaches.

Many companies are now hopping onto the Internet EDI bandwagon, such as the Harbinger Corporation (<http://www.harbinger.com>), which offers any company EDI services via a browser interface. Recently, American grocery chain Albertsons' began using a web-based supply-chain management product from InterTrade Systems. This system is allowing many of Albertsons' 1700 suppliers, regardless of size, to send invoices and purchase orders over the Internet with very low set-up and transaction costs. It is hoped that this new system will help reduce Albertsons' network service expenses by as much as 20%.

### **Electronic Procurement**

Procurement is another business activity that is rapidly-evolving due to the Internet, taking advantage of the reduced costs and cycle times made possible from with the ease of access to supplier information, and the ability to automate the procurement process. One example of how the Internet has influenced procurement is the development of the dynamic bid, mentioned earlier.

In the past, if a company were interested in finding a new supplier, they would post a request for quote (RFQ). Prospective suppliers would then submit bids to the company to try and win the business. However, this process was time-consuming and was limited in reach. By placing the bidding process on-line, request packages are now better able to reach more bidders, and the entire process can be automated, thereby reducing procurement times.

For example, several years ago, General Electric established its Trading Partners Network (TPN) (<http://www.tpnregister.com>) which used the Internet to create close alliances with its business partners. Through the use of TPN, several GE divisions have, on average:

- cut procurement cycles in half (bids can even be evaluated and awarded the same day that GE receives it)
- reduced procurement processing costs by 30%
- reduced the number of procurement staff, induced suppliers to reduce prices via on-line bidding, and also provided the sourcing department with at least 6-8 additional days per month to concentrate on strategic activities

Furthermore, by being able to reach a wider base of suppliers on-line, this led to greater competition among suppliers for GE's business, which resulted in lower acquisition costs (up to 20%). Since then, GE has now offered its TPN as a service for other companies who are interested in automating their procurement processes.

### **Increased Global Reach**

The reach of the Internet is providing businesses increased global visibility and the ability to service customers internationally. In the past, such globalization was usually an advanced stage of development, requiring extensive

capital, personnel, and strategic alliances with in-country partners. Now, once a business has established a web presence, they are accessible to anyone in the world with an Internet connection and a browser. Factors that are increasing the ease by which businesses can become global businesses include:

- tariffs and other trade barriers are falling, with numerous regional free-trade agreements in effect around the world, including the European Union, NAFTA, Mercosur, and ASEAN
- the amount of global trade is increasing, with the value of goods and services traded globally increasing 130% in real terms since 1980
- the transaction costs of processing international orders, including communications and shipping, has drastically been cut, making it cost-effective to deliver anywhere in the world
- 91% of the worldwide telecommunications market is opening up to more competition, which will result in both lower long distance telephone charges, and cheaper Internet access

However, the increased global reach of businesses via the Internet raises new issues, for both retailers and wholesalers/distributors. Many businesses, particularly in North America, are finding it difficult to fulfill the international orders they receive, and are turning away orders because they do not have the processes in place to fill them. How do businesses globalize their distribution or retailing practices? There currently are three distribution models for globalization: single source, independent distributors, and global network.

### **Single Source**

Forrester Research has proposed an Instant Global Acid Test for evaluating a company's international sales prospects. This test poses the following questions:

- Does the product generate more than \$50 US revenue for every pound/cubic foot in order to cover the cost of express shipment, which is usually \$10-40 US per pound?
- Does the product meet legal requirements for shipping, and is it legal to ship to the destination country?
- Is there sufficient international demand for the product, or in other words, will international sales generate at least \$1 million US in first-year revenues or represent more than 10% of the company's overall sales (whichever is larger)?

If a product passes the Instant Global Acid Test, it is recommended to keep the selling process as simple as possible, use existing list prices plus shipping and handling, internationalize the web site for target countries, and use logistics companies, such as FedEx or DHL Worldwide, for shipping. If the product does not pass the Instant Global Acid Test, it is recommended that the company politely decline the order and provide a reason why. However, this decision should be re-evaluated every six months and there should be a mechanism in place to capture expressed interest in the product from foreign markets.

### **Independent Distributors**

A more complex method of increasing global reach is through the use of independent distributors. Most companies will find it necessary to form alliances in foreign markets to sell their product, unless the company possesses strong international branding (such as Coca Cola), or the product requires little service or localized marketing.

In this distribution model, the company would still internationalize their web site such that potential customers are given full product information, but for the purposes of completing a sales transaction, they are referred to an in-country distributor. Of course, integrating independent distributors into a company's operations can be complex. These distributors must be screened for the ability to process orders on-line, commit to disclosing sales figures on a timely basis, and the ability to devote adequate resources to the product. Furthermore, it is recommended to provide these partners with an electronic commerce platform to ensure system-wide compatibilities and uniform worldwide quality.

### **Global Network**

Only the largest multi-nationals can justify a global on-line network and distribution centers in all major markets.

However, the formation of such a global network can help a company aggregate their purchasing to reduce their procurement costs and take advantage of regional differences in pricing.

## Barriers to e-business

The barriers to the further rollout of e-business in retail distribution affect both consumers and businesses equally, albeit from differing perspectives. The reasons given by consumers for not fully embracing Internet commerce transactions, uncovered by numerous studies, include concerns over security, purchase risks, privacy, lack of convenience, and the persistence of old habits. On the other hand, businesses are concerned about the risk of fraud and theft, the increasing complexity of e-business transactions, the high cost of acquiring customers, and possible sales channel conflict.

### Barriers to e-business: Consumers

#### Security

According to a study conducted by Ernst & Young in 1998, 70% of web purchasers felt uncomfortable with sending their credit card number over the Internet. Another study, conducted by E-Valuations, found that 94% of web buyers with either a medium-high or low-medium propensity to buy would purchase more on-line if protection from credit card fraud was guaranteed. Despite the protection afforded by SSL encryption and the SET credit card protocol, it is the consumers' perception of on-line security that Internet retailers will have the most difficult time overcoming.

Though it has been reported that the encryption system on the Netscape browser was 'cracked' with 100 linked computers within a span of eight days, the use of the Netscape browser to transmit a credit card number is probably still much safer than using a credit card in a crowded restaurant, where anyone could easily make note of the card number. Some companies have made initiatives to alleviate consumer fears of credit card fraud, such as the Yahoo! Visa card, which offers an explicit protection program for cardholders against fraudulent charges, or Dell Computer's (<http://www.dell.com>) On-line Secure Shopping Guarantee, which pledges to protect its shoppers from fraud. However, over time, consumer acceptance of using credit cards over the Internet should gradually increase, much like how credit card payments for telephone orders have now become more acceptable.

#### Purchase Risk

Another barrier to the acceptance of Internet transactions is the fact that consumers cannot 'see' the merchandise, and therefore are unable to judge product quality. A 1997 survey conducted by America's Research Group asked several consumers about the degree of trust they had for shopping at a store versus shopping at a web site, and the consumers responded with almost a 10:1 preference of shopping in a 'real' store. Furthermore, the same survey found that 26.9% of consumers did not want to buy anything they could not see or touch.

#### Privacy

Privacy is another concern of potential Internet consumers. The Gvu World Wide Survey conducted in 1998 found that 26.9% of consumers were reluctant to make on-line purchases because they did not believe that the information that they provided would be kept private.

#### Convenience

Convenience is also another barrier to on-line shopping. 22.6% of those questioned in the 1998 Gvu World Wide Web survey said that they could find what they wanted more easily or quickly at a local retail outlet, sidestepping the lag time between order placement and the delivery of the merchandise. Convenience also has implications into other e-business applications, such as electronic payment systems. For example, the SET payment system, which is touted as a more secure means for purchasing on-line with their credit cards, may be difficult for consumers to implement. The software installation process has been labeled as 'not very intuitive' and consumers must also register with a financial institution before they can conduct on-line transactions.

## Old Habits

Finally, companies conducting e-business with consumers will have to overcome entrenched shopping habits. The America's Research Group survey found that 14.9% of consumers always buy in stores, 11.6% like to pay cash, and 11.1% simply enjoy shopping too much. As bandwidth increases and on-line buying becomes less of a hassle, these percentages should go down, however, much like the experience of banks with the roll-out of automatic tellers, there will always be a small minority who will insist on face-to-face shopping experiences.

## Barriers to e-business: Businesses

### Security

Like their consumer counterparts, businesses see inadequate security and protection against fraud as the greatest barrier to the conduct of e-business transactions. For example, Software.net was deluged with orders placed with stolen or fraudulent credit card numbers after setting up shop on the Web— at times, these fraudulent orders outnumbered legitimate ones. In Denmark, Danish retailers missed out on an opportunity to participate in the European e-Christmas initiative in 1997 because Danish banks did not believe that the Internet was secure enough. Retailers are also finding it difficult to accept credit card payments from international customers due to the amount of fraud and the inability to prosecute offenders overseas. In wholesaling and distribution, many firms prefer to conduct EDI transactions using expensive value-added networks rather than the Internet because of security and difficulty in creating an audit trail.

### Increasing Complexity of e-business Transactions

Another barrier for e-business is the increasing complexity of e-business transactions. Though it is now much easier to set up an e-business presence today with the numerous off-the-shelf e-commerce applications available, the bar for interactivity and functionality of web storefronts is constantly being raised. Integrating front-end customer systems with back-end order entry applications often requires a major investment in time, energy, and money.

Affiliate programs, banner ads, loyalty programs, one-to-one marketing, business-to-business bidding applications, and web-based EDI are all increasing the complexity of the technology infrastructure that web-based retailers and distributors need to have in place. Security requirements are also proving to be more complex and expensive to implement. For example, for the SET security protocol, retailers and their banks must install software that will accept SET-based payments. However, the vendors of these software products are all interpreting the SET standard in different ways. If the consumer and retailer happen to use different banks and they each happen to install different software packages, the two banks may not be able to 'talk' to each other, and the credit card payment may not be accepted. In order to implement a web commerce solution today, the minimum investment needed is \$10,000 with annual maintenance and support costs amounting to 20% of web costs. For all retailers, the average investment is \$250,000 US.

In addition to the technical barriers of e-business, there are the organizational challenges that companies face. e-business initiatives have impacts throughout the supply chain, and so customers, suppliers, partners, and other stakeholders must all be brought on board.

### High Cost of Acquiring Customers

Initial set-up costs aside, the high cost of acquiring customers is another hurdle for retailers. With over 75,000 web storefronts vying for the attention of the consumer, driving traffic to a retailer's site is a challenge. Over the past year, on-line retailers are spending an increasing amount of money on advertising and distribution deals. Retailers are aligning themselves with the top search engines (such as Yahoo! and Hotbot) and portals (such as Netscape and E-Trade) which are being used by both Web newcomers and experienced users as launching points for their web navigation. However, this 'real estate' is not cheap— retailers who want to be listed on AOL's Shopping Channel (<http://www.aol.com/shopping/home.html>) must pay \$125,000 US per year plus commissions. With maintaining visibility becoming an increasingly expensive proposition, it is not surprising that barely a third of all on-line retailers make a profit through on-line sales, and even the well-financed and highly-respected upstarts, such as Amazon (<http://www.amazon.com>), are still losing money.



## Channel Conflict

Finally, some businesses will find it difficult to conduct e-business because of possible channel conflict. Computer hardware manufacturers Compaq and IBM both had to venture forward cautiously with development of their on-line sales channels in order to avoid the ire of their retail distribution channels. Even in international markets, some businesses may find that their on-line orders may fall into the territories of their existing distributors in other countries. Pioneer Electronics in the United States managed to avoid alienating its retail network by only selling products on-line that were not available through retail channels. Some retailers have by-passed the issue of channel conflict completely by using their web presence to point prospective customers to real-world retail outlets, like how the GM Buypower web site (<http://www.gmbuypower.com>) moves customers along the sales cycle by referring them to local dealers.

## Other Issues

A number of other issues plague European businesses with respect to the rollout of e-business: taxation, encryption, privacy, and limited infrastructure.

### Taxation

Concerns over the taxation of Internet transactions may have an impact on the growth of e-business. Currently, all electronic commerce forecasts implicitly assume the absence of any form of Internet taxation, and it is unknown the extent to which such taxation would reduce these growth projections.

In June of 1998, the Internet Tax Freedom Act was passed in the United States, placing a moratorium on taxing Internet sales and services for three years, and creating a temporary commission to study state and local electronic commerce issues. Certain state Governors oppose this moratorium, citing loss of state tax revenues, and seek uniform taxes on both electronic and mail order retailers. Other states have passed laws, such as the California Internet Freedom Act, banning the levying of new on-line taxes, including fees for access, Internet services, and goods sold over the Internet. However, the limitations of these new laws is that they ban the levying of 'new' taxes on Internet transactions— existing taxes can still be applied. Currently, there are ten states tax Internet retailers like mail-order companies, with retailers required to collect taxes in states where they have a physical presence, such as offices, warehouses, or servers. Other states rely on consumers to report the sales tax on their purchase, though there is currently no way of enforcing this.

In the middle of 1998, the European Commission (EC) declared that European Union (EU) consumers who buy and receive products or services over the Internet are required to pay value-added tax (VAT) on them, even if the order was fulfilled by an overseas supplier. Their argument was that in the absence of taxation on Internet transactions, there would be unfair competition for EU retailers who already have to tax their products and services for private consumption. Furthermore, it was recommended that all Internet transactions should be taxed as services, whether they were goods purchases on-line but shipped by mail, or digital goods that are downloaded. However, the EC has admitted that such a taxation scheme would be difficult to implement. In fact, a number of loopholes are currently being exploited. For example, Compuserve exploited a loophole by claiming that because its on-line subscription services were being delivered from its United States head office, its subscription fees were VAT-exempt, much to the chagrin of European Internet service providers. Another example would be United Kingdom consumers purchasing CDs from the United States and not declaring the VAT— which winds up cheaper than buying the CDs in a local store and having to pay the VAT.

### Encryption

Encryption is another political 'hot potato'. On the one hand, security is a huge concern among consumers and retailers alike, and it is believed that electronic commerce will never take off until consumers feel that they can safely provide personal details over the Internet. On the other hand, the best means by which to protect the integrity of e-business transactions is through encryption. However, the United States government is against the proliferation of computer encryption technology on the basis of national security, as it could be used to aid criminals and terrorists. Though there are currently no restrictions on the use of encryption technology in the United States, the FBI is pushing to restrict the domestic use of encryption, much to the dismay of privacy advocates and US software manufacturers.



Furthermore, there are restrictions on the export of encryption software from the United States, as they are considered munitions. Since 1996, the export regulations have relaxed, allowing the export of 56-bit encryption. However, restrictions still remain on software featuring 128-bit encryption, which is the current digital standard. These restrictions have implications for both Netscape and Microsoft, whose latest browsers feature 128-bit encryption. Because of export rules, the browsers they sell outside of the United States and Canada use a lower encryption standard. The latest moves to ease export restrictions further have hit a snag following heavy resistance from law enforcement officials.

Thus, not only is the encryption and national security debate hindering the roll-out of better encryption technologies within North America, it also has global implications. A number of European firms have come out with their own competing 128-bit encryption algorithms and are free to sell them globally. However, the US government may exert pressure on European governments to either have the 'keys' to the security algorithms handed over, or have the sale of these encryption technologies restricted. Furthermore, because of the widespread use of Netscape and Microsoft browsers by most Internet users in the world, it is doubtful that these competing security algorithms will gain much popularity.

### **Privacy**

The EU has passed the European Data Directive, a privacy directive stating that consumers must give unambiguous consent for their private data to be used by web sites. This directive, which is scheduled to begin on October 25th 1998, requires that non-European companies meet the same privacy standards for data processing under European laws or else they would be barred from doing business with Europe.

Unfortunately, this privacy directive is at odds with the way many web sites based in the United States handle the personal data of its visitors. Furthermore, Privacy International has warned that it will target American on-line businesses in the fall of 1998 if their confidentiality contracts do not meet the directive's requirements for guaranteeing the confidentiality of any European's personal data that is shipped stateside for processing. If any privacy complaints are lodged against any American businesses, millions of on-line transactions between the United States and Europe could be blocked, from travel reservation systems, to credit-card processing centres.

### **Limited Infrastructure**

Another barrier that European businesses must overcome is the limited infrastructure in place to support Internet commerce initiatives. In this case, 'infrastructure' not only refers to the technological aspects, but is also relevant to the skill set of European businesses and the political environment in which they operate.

Currently, most of Europe's internal Internet traffic is actually routed through the United States, reducing the performance of the network. As a result, the limited European bandwidth is creating difficulties for e-business initiatives. For example, in the European e-Christmas experiment carried out in 1997, the web storefronts of the participating companies experienced significant delays and frustrated shoppers as a result of the limited bandwidth.

Though some initiatives have been started to build the backbone needed to support the future growth of the Internet in Europe, this infrastructure development is proceeding slowly. One of the reasons for the slow build-out is that many of the new telecommunications providers are eschewing Internet services to concentrate on building more profitable core businesses, such as long-distance.

However, even with the proper backbone in place, there is a dearth of e-business know-how in the European marketplace. Without any local high-profile e-business success stories on the scale of Amazon in the EU, businesses have few role models to emulate. Furthermore, companies are finding that there is a shortage of Internet talent among local workers. As a result, hardware vendors in Europe are finding that their business customers are often requesting professional consulting services with their equipment purchases.

Finally, the development of electronic commerce is not a top priority for many European governments, who are more concerned with other real-world issues such as unemployment and the rollout of the euro.

## **Recommendations**

Over the past few years, with the evolution of the Internet as a new distribution channel linking suppliers with consumers, a number of e-business best practices have come to light. Through the use of these best practices, companies have been able to achieve one or more of the following:

- generate traffic for their web site
- convert browsers into buyers
- reduce the costs of doing business
- increase profitability

### **Finding a Niche to Exploit**

An Internet retailer, despite superior competition, can capture the mindshare of consumers simply by being the first. The first on-line retailers into a new market have the advantage of being able to introduce switching costs that lock in customers, through a combination of consumer profile databases, loyalty programs, and distributed points of sales. There are numerous examples of companies that have succeeded in very focused niches such as Powells books (<http://www.powells.com>) which has found a niche selling used, rare, and out-of-print books. The recently-launched VarsityBooks.com is establishing a niche for selling college textbooks on-line.

### **Strong Branding**

Branding a retail concept in the real world is all about creating an image, feeling, or attitude within a consumer's mind that helps create a powerful bond between the retailer and the consumer, favorably influencing purchase behavior.

On the Internet, with consumers unable to 'see' or 'touch' the merchandise they are buying, consumers tend to purchase items that are standardized so that they know what to expect. For example, on-line clothing retailers are finding that the best-selling clothing items on the Internet are recognizable basics such as jeans, khakis, and T-shirts. A brand is one of the few means by which a consumer can judge the consistency and quality of an on-line offering— a Compaq computer is a Compaq computer, whereas a computer from XYZ Corporation would be a more nebulous entity. Several surveys conducted recently support this assertion.

A 1997 E-Valuations found that 32% of Internet consumers would be inclined to buy more if they were able to purchase from name brand retailers, while 76.1% of consumers surveyed by the GVV 1998 World Wide Web survey stated that vendor reputation was a key purchasing influencer. Not surprisingly, the recent arrival of more well-known retailers and other branded merchants, such as The Gap (<http://www.gap.com>) or Wal-Mart (<http://www.Wal-Mart.com>), have helped to increase the interest in Internet shopping.

### **Affiliation with an Established High-Traffic Site**

Internet retailers are ensuring high visibility for their offerings by quickly snapping up prime real estate on the shopping channels of popular on-line services (such as AOL and Compuserve), search engines (such as Yahoo! and Lycos), and on-line communities (such as Netscape or Microsoft Network). These established high-traffic sites, also referred to as portals, serve as the entry points for many Internet consumers and are used by the majority of both new and experienced users as navigational aids.

For example, over 10 million consumers use AOL as their entry point onto the Internet, which is more than the combined total of subscribers on all the other dial-up Internet service providers combined. Second in consumer popularity is Yahoo!, where 41% of the Internet population check into on a regular basis. Not only do these high-profile sites aggregate Internet traffic for retailers, thereby providing a higher concentration of 'eyeballs', but from the consumer's perspective, they serve as a form of qualification, a reassurance of the retailer's legitimacy. According to an e-tailing Group study, this trend is expected to continue, with 25% of annual on-line revenues in the year 2000 being contributed by purchase transactions initiated at these affiliate sites.

Some enterprising retailers have taken this one stop further by actually owning the customer's Internet connection. In the United Kingdom, grocery retailers Tesco and Nationwide are selling branded Internet connections from British Telecom. By owning the entry point on to the Internet, these grocery retailers are able to

place their content in front of consumer's every time they log-on, and open up the possibilities for future commercial opportunities, such as on-line shopping or banking.

## Real World Promotional Programs

In 1997, the IBM World Avenue Mall, which housed many on-line storefronts, closed its doors due to lower-than-anticipated traffic. One of the reasons offered for the cybermall's failure was inadequate promotion of the service in IBM's print and television ads. Likewise, in order for an Internet retailer to stand out from the millions of web sites, and reach potential customers who may not use the Internet on a regular basis, they must use real world promotional programs to increase their visibility. Becoming 'real wired' involves placing the web address on:

- every piece of advertising or promotional copy that is produced (such as business cards, annual reports, advertisements, and brochures)
- every piece of property owned by the retailer (such as buildings and delivery vehicles)
- direct mail pieces to existing and potential customers notifying them of the web presence and what they can do there

## Reducing the Cost of Acquiring Customers

Several demand generation models have emerged on the World Wide Web, with the most popular being banner ads, portal affiliations, and syndicated selling.

Banner ads are clickable graphic links that take the Internet user to another web site, and this ad space is sold at a fixed monthly fee. The click-through rates are typically low for banner ads, ranging from between 1% to 13%. This means that for every 100 visitors who view a page containing a banner ad, on average, between 1 to 13 people actually click on the ad, depending on how well the web site's audience matches the advertiser's target audience. Because the banner ad advertising rate is fixed, regardless of how many visitors actually click-through to the advertiser's web site, the acquisition cost per customer can be high.

Portal affiliations would involve an Internet retailer 'renting' space on high-traffic web sites, such as popular on-line subscription services (such as AOL or Prodigy), search engines (such as Yahoo! or Lycos), and Internet communities (such as Netscape or Microsoft Network). These established high-traffic sites, also referred to as portals, serve as the entry points for many Internet consumers and are used by the majority of both new and experienced users as navigational aids. For example, over 10 million consumers use AOL as their entry point onto the Internet, which is more than the combined total of subscribers on all the other dial-up Internet service providers combined. Second in consumer popularity is Yahoo!, where 41% of the Internet population check into on a regular basis. Not only do these high-profile sites aggregate Internet traffic for retailers, thereby providing a higher concentration of 'eyeballs', but from the consumer's perspective, they serve as a form of qualification, a reassurance of the legitimacy of the retailer. Unfortunately, the rents for prominent placement on these high-traffic portal sites is expensive— for example, prime real estate on AOL's Shopping Channel (<http://www.aol.com/shopping/home.html>) must pay \$125,000 US of rent each year, as well as a percentage of sales.

Syndicated selling would involve an Internet retailer signing on 'affiliate' web sites that would refer its visitors to the retailer's web site. In exchange, the affiliate receives a commission for referring the customer, usually 5-15% of gross referred sales. These affiliates tend to be small, revenue-hungry, and niche-oriented sites that are willing to place an ad more prominently or next to related material, which makes these sites ideal vehicles for targeted marketing and spurring more impulse sales. Several on-line retailers practice this form of customer acquisition, the most notable being video seller Reel.com (<http://www.reel.com>) and Amazon (<http://www.amazon.com>), which signed its 100,000th affiliate partner in August of 1998.

However, retailers are finding that it takes a lot of effort to administer a syndicated selling program, especially if a retailer is providing customized services beyond the traditional customer tracking and accounting functions. For example, Barnes and Noble's differentiates its syndicated selling program from Amazon's affiliate program by offering several types of sales tracking and analytical reports, and making available an account executive to assist affiliates with setting up URLs and fine-tuning ad placements. Even without the provision of account executives, the information technology architecture requirements alone can be expensive. To counter this, some retailers are

turning to service bureaus, such as BeFree (<http://www.befree.com>) and LinkShare (<http://www.linkshare.com>), who take responsibility for administering the syndicated selling programs and tracking sales on behalf of the retailer.

Among all the demand generation models in current use, syndicated selling has been found to be the most inexpensive way of acquiring new customers, since advertisers are only paying for click-throughs that result in actual sales. An analysis conducted by eToys (<http://www.etoys.com>) found that a \$40 sale on their web site cost only \$10 under their syndicated selling program, whereas the same sale triggered by a banner ad would cost \$20 or more. This finding has been confirmed by other research, such as a Forrester Research survey finding that banner advertising cost the top 51 commercial web sites \$67 per sale, compared to only \$4.60 per syndicated selling sale. Furthermore, some retailers have found that by increasing the amount of the commission, they are able to attract more affiliates and the affiliates tend to promote the retailer's site more prominently, while still keeping the program cost effective— eToys discovered this when they increased their commission from 12% to 25%. Not surprisingly, syndicated selling programs have grown in popularity, with many retailers introducing these programs during the summer of 1998, in preparation for the Christmas season.

## Easier Site Navigation

In a recent usability study of the nine most highly-regarded web sites (including those of Fidelity, Disney, and Travelocity), most of the 70 test users could not find specific information they were instructed to find a majority of the time. Unfortunately, companies tend to design their web sites with their marketing and business objectives in mind, and they often do not take into account the needs of their consumers when making design decisions. The best retailing web sites make the selection and ordering processes more intuitive by mirroring the customer's 'purchasing logic'. Barnes and Noble's web site (<http://www.barnesandnoble.com>) allows customers to browse for books by subject matter or gift-giving occasion, successfully replicating the real world book shopping experience, only without the difficulty of navigating rows of shelves. Similarly, Wal-Mart (<http://www.Wal-Mart.com>) feels like a store by organizing its product selection into distinct product categories.

In a world where consumers suffer from computer glitches, browser crashes, and slow modem speeds, it is important to make the on-line shopping experience as hassle-free as possible. Some strategies that have assisted retailers in making their web sites more user-friendly include:

- Minimizing the use of frames, animation, and Java applets to reduce both download times and browser incompatibilities
- On-site search engines are not as useful as previously believed— an Infoworld study found that customers were more 50% more likely to find the information they are looking for by unassisted navigation than if they used an embedded search engine, due to the high number of irrelevant search results
- If an on-site search engine is used, it is recommended that a best of breed search engine be used, such as Open Text (<http://www.opentext.com>) or Inktomi (<http://www.inktomi.com/products/search/>)
- Another alternative to having an on-site search engine would be employ collaborative filtering technology, such as Firefly (<http://www.firefly.com>) and Net Perceptions (<http://www.netperceptions.com>), to assist with matching products to customer needs
- Forrester Research, in their "On-line Retail Strategies" report, recommends not only to place the top selling items on the home page, but to also limit the number of page views per item ordered. The average number of pages a customer has to navigate through before they order an item should ideally be between 2.0 and 8.0, depending on the complexity of the product. Grocery items, which are essentially commodities, would have a ratio of around 1.5, whereas a more complex product, such as PC hardware, would have a higher ratio between 6.0 and 9.0. By lowering the ratio, you reduce the number of web pages that your customers have to wade through, thereby making the ordering process less time-consuming.

## Creating a Community

'Sticking' is what retail analysts call the creation of a community around a product. In creating such a community, visitors are encouraged to linger longer in a store and are provided with an incentive to return. In essence, creating a community makes a store a 'fun place to shop'. In the real world, the Disney Store is a perfect example - a brightly decorated store with themed merchandise that offers in-store activities for kids and attractive offerings

for their parents. Another good example would be the Chapters chain of bookstores, where customers can peruse the store's offerings in comfortable chairs, look for hard-to-find books, or meet friends over coffee. Home improvement stores have also gotten into the creation of communities, by offering demonstrations and professional advice for would-be home renovators.

The key to creating a community around a product is to augment the customers' experience with the product, thereby encouraging them to return, which would hopefully drive further sales. For example, community-building activities can include:

- the creation of a knowledge base that will provide customers with information on product offerings (such as a catalog)
- providing sound advice to assist with decision-making (such as movie reviews)
- providing information on new uses for products (such as providing recipes for a food product)
- providing message boards that allow your customers to speak with each other (such as a 'household cleaning tips' exchange)

The value in a community lies not in the product itself— it lies in what the retailer can do to create new value for the customer by enriching the experiential aspects of the purchasing process. This can be achieved by the provision of informative content on the products, or by offering a forum where customers can speak with other like-minded individuals.

There are numerous examples of on-line communities. Amazon (<http://www.amazon.com>) is not a mere bookseller— it aggregates content of interest for the customer by providing book reviews from numerous national newspapers and magazines, and even offers its customers the ability to post their own book reviews. eToys (<http://www.etoys.com>) offers toy recommendations from consumer and educational groups, allowing parents to quickly find toys targeted to a specific child's age, interests, and developmental needs. Crutchfield (<http://www.crutchfield.com>), which sells consumer electronics, offers an 'Info Library' that educates customers on how to make full use of their electronics purchases, from equipment hook-up to home-speaker placement. The web site for Uncle Ben's Rice (<http://www.unclebens.com>) positions the product as 'the heart of cooking and preparing great meals'. It does this by creating a community around it with an interactive kitchen, recipes, and other facilities, such as being able to send an e-mail of a recipe from the site to a friend. To date, this site has been successful, with visitors spending an average of 15 to 20 minutes on each visit.

## Real-Time Merchandising

Some web retailers are taking advantage of the dynamic nature of the Internet by updating their product listings and pricing on a minute-by-minute basis, following the lead of airlines (such as American Airline's NetSAaver Fares program) and computer mail-order companies who use real-time technology to hold on-line close-out sales. This then allows the retailer to liquidate their overstock and obsolete inventory without sacrificing margin to a third-party liquidator, and to sell limited-run merchandise. Another benefit of real-time merchandising is that it also encourages the retailer's customers to drop in on the site frequently for new updates.

This method of liquidation has been found to be most useful for apparel and gift merchants, whose customers are accustomed to overnight markdowns on seasonal merchandise. Eddie Bauer (<http://www.eddiebauer.com>), JC Penney (<http://www.jcpenney.com>), and Reel.com (<http://www.reel.com>) have all established such clearance sections on their web sites. On Impulse! (<http://www.onimpulse.com>) has introduced the Impulse! Buy Network, which places sale items on 'impulse racks' and then announces their availability with banner ads on sites such as Yahoo! or fashionmall.com. Two suppliers of scientific products, Fisher Scientific Co. and VWR Scientific Products Corp. are updating their web sites to provide real-time pricing for their products based on purchase volume, contracts, and shipping logistics, as a means of better serving their customers and squeezing costs out of the purchasing process.

## Reduce First-time Purchase Risk

Many first-time buyers 'test the waters' by submitting a small initial order, which they believe to be 'safer'. The size of this initial order will typically range from 10 to 30% of the average order size, depending on the brand strength

of the product being purchased. For example, Forrester Research has found that JC Penney shoppers are often willing to place larger first orders than shoppers at less well-known on-line retailers. It is often not until the fourth order that the customer usually reaches the 'average' order size.

By building up consumer trust quickly, a retailer can convince more browsers to make purchases, and increase the average order sizes for its newest customers. Strategies for building up this trust and lowering the customer's perception of risk in the ordering process include:

- Offering a full refund policy— 56% of Internet consumers surveyed by E-Valuations stated that they would be inclined to buy more if they were assured that the products were refundable
- Offering a discount or extra value to first-time buyers, such as the offer for free shipping on initial orders from Barnes and Noble (<http://www.barnesandnoble.com>), or the \$1.00 introductory three-month trial offer for the netMarket shopping service (which normally costs \$69 a year in membership dues).
- Enticing customers to place larger orders by offering discounts or free shipping, such as the free shipping offered by The Gap (<http://www.gap.com>) for orders over \$50 or the maximum \$4.97 shipping charge for orders within the United States offered by CDNow (<http://www.cdnnow.com>).
- Offering inexpensive goods as an alternative to costly or high-involvement items.
- Offering branded merchandise such that the customer knows exactly what they will receive— the most popular items at The Gap On-line store (<http://www.gap.com>) are recognizable basics such as jeans, khakis, and T-shirts.
- Promoting the security of the site by displaying security pledges from third-party auditors (such as TRUSTe or the recently introduced WebTrust program, launched by the Canadian Institute of Chartered Accountants).
- For customers that are still wary of sending their credit card number over the Internet, offer a 1-800 number for customers to call. Another alternative would be to have the customers provide their credit card number over the phone for the first order, and issue them an account number and password which they can use on-line for subsequent orders.
- Offering a policy that protects customers from fraudulent charges, such as the Virgin Net Safe Shopping Guarantee (<http://www.virgin.net/shopping/guarantee/index.html>) that reimburses customers for credit card liability charges up to 50 pounds if any fraudulent charges result from a purchase at Virgin's web site.
- Providing customers tangible proof of what they are ordering— customers at Benchmark BeHome's on-line furniture store (<http://www.behome.com>) are sent digital photos of their order to ensure that they are receiving the correct merchandise before delivery.

## Reducing the Cost of Servicing Customers

Internet retailers have lower costs associated with maintaining a physical infrastructure, labor, and carrying inventory than their real-world counterparts. For example, rent and depreciation represent less than 4% of Amazon's sales, compared to 13% for the traditional bookstore. Instead, the majority of on-line retailing costs, besides the cost of acquiring customers, comes from servicing customer orders.

Because these on-line retailers are shipping to individual customers, they are not able to fully benefit from scale economies for reducing costs. For example, in the past, Amazon relied on small shipments from publishers and wholesalers as a means of keeping their inventories low. However, the on-line bookseller was penalized with additional markups for these small orders. To counter this additional expense, Amazon (<http://www.amazon.com>) has begun to increase its inventory of popular titles on hand, which is also allowing it to meet its corporate goal of shipping 95% of its orders on the same day.

On the other side of the value chain, some retailers have found innovative ways of infusing scale economies into the delivery process. Grocers in the United Kingdom experimented with selling groceries on-line to people at work: Waitrose to ICL employees, Sainsbury's to HP employees, and Safeway to IBM employees. Orders placed over the Internet by the employees would be dropped off at the end of the working day in the office car park. Not only did these programs target the affluent and short-of-time customers, but it made the delivery process more efficient for the supermarkets who were able to reach a large number of customers with a single delivery.

## Offer Valuable Ordering Applications

Some on-line retailers are increasing the ease by which customers can purchase products from their web sites by offering time saving on-line applications. Though some of these on-line shopping applications are of dubious value, such as the 'virtual dressing room' at The Gap's web site (<http://www.gap.com>), there are several useful ones.

The Spree.com (<http://www.spree.com>) offers a gift-giving assistance tool where customers can enter the specifications of the gift recipient (sex, age, occasion, price range, etc.) and are then provided with several alternatives. Cisco Systems configuration agent ([http://www.cisco.com/cgi-bin/front.x/config\\_root.pl](http://www.cisco.com/cgi-bin/front.x/config_root.pl)) allows customers to custom configure connectors on-line, without requiring any human intervention. The GM Buypower web site (<http://www.gmbuypower.com>) allows customers to select the model of car they want and then search the inventories of their local dealers. NetGrocer (<http://www.netgrocer.com>) invites corporate customers to register at the Corporate Cupboard for regular delivery of recurring orders, and also offers the option of pre-processing items for corporate functions. 1-800 Flowers (<http://www.1800flowers.com>) offers an automatic gift registry in which a customer can specify the people they will be sending flowers or gifts to, what will be sent, what the card will read, and when it is to be delivered, up to two years in advance.

## Quick Order Processing

In addition to site navigation, another area that many web sites perform poorly in is the efficiency by which customers can pay for their purchases. In the real world, if customers spend too long lining up to pay for their purchases, they will either abandon their purchases or make a conscious decision to shop somewhere else in the future. A survey conducted by Forrester Research found that Internet customers currently abandon up to two-thirds of 'virtual shopping baskets', and they suggest that the number of abandoned baskets should be no more than 5-10%.

Several Internet retailers have implemented procedures that streamline the ordering process. Customers of the on-line bookstore Amazon (<http://www.amazon.com>) enter their information only once on their first order, and all subsequent orders can be made with one mouse-click. In Britain, FoodFerry's on-line grocery shopping service (<http://www.foodferry.co.uk>) allows customers to save baskets of the groceries they buy regularly, making repeat purchasing of staples more convenient.

## Providing Order Status Information

An administrative task that many on-line retailers must deal with are queries from customers regarding the status of their order— answering questions such as 'has it been shipped?', 'where is it?', and 'when is it due to arrive?' For a retailer processing hundreds of orders per day, this can become a time-consuming burden. By having a self-service feature that allows customers to check on the status of their order, or an automated process by which e-mail reminders are sent to customers apprising them of order status, not only are customer concerns allayed, but retailers are able to reduce the amount of administrative overhead.

Some e-commerce applications, such as Lotus Domino.Merchant, allow customers to track their UPS-delivered orders with an embedded utility in the retailer's web storefront. In the very least, it is recommended to confirm the purchase and thank the customer via e-mail within twelve hours of placing the order. Retailers that offer customers a self-service feature for checking order status are CDNow (<http://www.cdnow.com>), and Tesco (<http://www.tesco.co.uk>)

## Develop Incentives for Repeat Purchases

In the real world, it is far less expensive to convince existing customers to buy more, than it is to attract new customers. This same rule applies to the domain of Internet retailing. Currently, Amazon finds that 58% of their orders come from existing customers. Not only is it less time-consuming to service these customers (i.e. they know what to expect, they need less assistance, they can be processed via 'one-click' ordering), but research has found that repeat customers browsing a retailer's storefront are five times more likely to make a purchase than a



visitor who has never purchased anything before. By converting more first-time purchasers into repeat buyers, the on-line retailer can achieve higher growth rates at less expense than retailers who only focus on getting new customers to their web site.

Forrester Research recommends that the ratio of repeat to total visitors should be between 15-25%, and that this number should approach 40-60% as overall Internet traffic grows. A number of incentive systems have been developed to convert first-time buyers into repeat purchasers, many of them mimicking real-world initiatives: excellent customer service, loyalty programs, one-to-one marketing, and outbound marketing programs.

### **Excellent Customer Service**

In a recent survey conducted by Forrester Research, the primary method by which on-line retailers created loyalty and repeat purchases was through excellent customer service. Simply by making the site navigation and order processing hassle-free experiences, properly managing the customer service function, and delivering the customer's order in a timely manner, retailers encourage their customers to make repeat purchases.

Some retailers are taking advantage of the dynamic nature of the Web by using Internet technologies to enhance the provision of customer service. SoundStone (<http://www.soundstone.com>), an on-line music retailer that specifically caters to Baby Boomers, is using SiteBridge CustomerNow call centre software to provide LiveHelp! service. LiveHelp! offers real-time communication between a customer and a live customer service representative. After the software detects the customer's browser and software platform, an interface is created on the customer's computer, allowing text-based communication. The customer service representative also has the ability to conduct 'guided browsing', in which they can 'push' specific web pages to the customer.

### **Loyalty Programs**

Examples of loyalty programs in the real world are frequent-flier miles or coffee-club cards. They reward repeat customers with extra value, whether they are in the form of free goods or extra discounts. The numerous loyalty programs in on-line retailing mimic these real-world programs. The most prevalent loyalty program model would be a points program, similar to frequent-flier miles. For example, Netcentives is making an appeal to the 30 million Internet users who collect frequent-flier miles with Clickrewards (<http://www.clickrewards.com>), which allows retailers to award one frequent-flier mile to customers for every dollar spent. Another loyalty program, CyberGold (<http://www.cybergold.com>), allows retailers to award consumers with cash for a variety of on-line transactions, such as purchases, playing a game, signing up for a subscription service, or viewing an ad. Another recently introduced loyalty program involves the Yahoo! Visa card, which offers a rewards program for shopping at selected on-line merchants.

Another means of generating customer loyalty is to create a switching cost— something that will 'lock' the customer in, such as a membership fee. One of the more profitable 'cybermall's is NetMarket (<http://www.netmarket.com>). Unlike the other less profitable cybermall's in existence, NetMarket locks its customers in by having them pay an up-front membership fee of \$69 US. This membership fee, which entitles the customer to receive bigger discounts on all subsequent purchases, acts as a switching cost, thereby ensuring that the customer will make maximum use out of the NetMarket site. In addition, NetMarket customers can also accumulate frequent-shopper discounts on their purchases, creating yet another switching cost. It is NetMarket's goal to provide a single point of purchase for 95% of a typical family's retail needs— currently, its product selection can supply about 20%.

### **One-to-one Marketing**

Although customer relationship marketing, also known as one-to-one marketing, has been a growing trend in real-world retailing, there are very few such marketing applications on retailer web sites. Regardless, Forrester Research see big growth in the application of one-to-one marketing to on-line retailing, with the introduction of Internet technologies that are able to identify individual visitors at a retailer's web site and then push content onto the visitor based on some pre-determined preferences.

The two technologies that underlie Internet-based one-to-one marketing are rules-based matching, where user profiles are created based on established preferences and information requests, and collaborative filtering, which



sorts previously-created profiles into 'affinity groups' from which retailers can infer what types of products they might be inclined to buy. For example, the Infoseek search engine (<http://www.infoseek.com>) uses Aptex's neural net technology to create users profiles based on the relationships of key words. These user profiles are created whenever a user searches on the Infoseek search engine, and the profile is stored in the 'cookie' files of the web browser. On subsequent visits to Infoseek, the cookie file is retrieved and ads targeting the profile are shown to the user, based rules-based-matching. According to Infoseek, they are finding that this profiling is yielding click-through rates that exceed the industry standards by 50%.

The Open Personalization Standard is expected to be widely used by 1999 in the next generation of web browsers. OPS is anticipated to vastly increase the ability of Internet retailers to understand the interests of their visitors, though there is still much industry disagreement over its roll-out. Under this scheme, consumers can choose to store personal information, hobbies, and other interests onto their hard drives. Retailers would then be able to access these profiles when the consumer visits their web site, allowing the retailer the opportunity to better target their offerings to the consumer.

Another recent software offering aimed at improving one-to-one marketing is the Dynamo 3.0 Web Server from Art Technology. AOL, Fidelity, and Kodak have already signed up for this new product which will allow the development of user profiling and tracking, billing, and ad-management applications. One interesting feature of this new software is its Dynamo Ad Station module, which tracks information about a user without the use of cookies. Instead, it looks at the user's browser traits, the referring domain, and where the user visits on the web site.

One on-line retailer that is using the Dynamo 3.0 Web Server to its full capabilities as a vehicle for handling one-to-one marketing is BMG Music Service (<http://www.bmgmusicservice.com>). On this site, in addition to viewing the catalog of CDs and making purchases, customers can listen to music samples, shop in clearance sales, check their accounts, check order status, and manipulate their personal profile. The structure of the on-line catalog is not only dynamic, but is tailored to each customer— each customer is offered access to special deals depending on how long they have been loyal customers. At busy times, the site has been known to handle up to 2000 concurrent and customized customer sessions.

## Outbound Marketing Programs

Outbound marketing refers to follow-on marketing initiatives aimed at strengthening the relationship between the Internet retailer and the customer. A retailer's web site may be visited by a prospective customer once, and there is no guarantee that the customer will ever return. The objective of outbound marketing is to develop a relationship with the customer as soon as possible, and then periodically broadcast messages to the customer to build 'Internet Mindshare'. This way, instead of waiting for the customer to return to the retailer's web site, which may never occur, the customer is kept apprised of the retailer's offerings. Outbound marketing programs that are employed by retailers include newsletters and e-mail reminders.

Savvy Internet retailers are establishing relationships with their customers by sending them tailored content aimed at building top-of-mind awareness, and moving the customer further along the sales cycle by stimulating demand. For example, Lobster Direct (<http://www.novaweb.com/lobster/news1.html>) offers a monthly newsletter with lobster jokes, lobster recipes, lobster surveys, and a monthly draw for two free lobsters. Amazon (<http://www.amazon.com>) offers an e-mail subscription in which sends reviews, articles, and news tailored to the customer's specified interests. CDNow (<http://www.cdnow.com>) sends out a newsletter, outlining the latest CD releases, to its registered customers.

Another tactic for stimulating demand is by an e-mail reminder. This is an even more powerful outbound marketing strategy because it catches the customer's attention immediately before a pre-determined buying occasion. GiftOne (<http://www.giftone.com>) is an Internet service that helps customers manage gift-giving by sending e-mail reminders of birthdays and anniversaries, along with gift suggestions based on profiles of the people they shop for. Greet Street (<http://www.greetst.com>) has a similar reminder service, only for electronic greeting cards, and so does Godiva (<http://www2.godiva.com/services/reminder-godiva>), for chocolates.

## Collaborating with Supply Chain Partners

Collaboration with supply chain partners via the Internet is allowing distributors, wholesalers, and retailers to maintain higher in-stock rates, reduce cycle times, reduce inventories, and lower inventory carrying costs through enhanced coordination of supply and demand activities. There are several examples of businesses involved in collaboration activities over the Internet.

The Collaborative Planning, Forecasting, and Replenishment Program (CPFR), which is in pilot in 1998 with an expectation of full roll-out by 1999, refers to standards and guidelines for better forecasting and restocking. This system allows companies to collaborate in determining future demand for products, by sharing information with respect to the availability of products in stock, promotion schedules, POS sales history, and store-level sales expectations. In this collaboration process, the retailer and supplier electronically post their latest sets of sales and production forecasts on the Internet. A server-based application then compares the two forecasts and flags differences between them that exceed a pre-determined safety margin. The end result of this collaborative process is that the right amount of product reaches the right retail location at the right time. For retailers, this means increased sales from higher in-stock rates, while achieving lower on-hand inventories. For distributors and wholesalers, this means lower warehouse storage requirements and reduced on-hand inventories.

According to Ernst & Young, it is believed that the implementation of CPFR could yield an inventory reduction of \$250-350 billion US across the entire American economy. One company that made excellent use of CPFR was Warner-Lambert, which began sharing strategic plans, performance data, and market insight with Wal-Mart Stores Inc. over the Internet. Through this collaboration, Warner-Lambert was able to increase its products' shelf-fill rate from 87% to 98%, which earned the company an additional \$8 million in sales, which is equivalent to the revenues of a new product launch. Not surprisingly, Warner-Lambert is hoping to use the Internet to expand the use of CPFR to all its suppliers and retail partners in the future.

Other Internet-based collaboration tools include SyncraCt from Syncra Software Inc. (<http://www.syncra.com>) and QCS Collaboration Solutions from IBM. SyncraCt is a Java-based application that alerts a business' supply chain partners to unexpected variations in supply-chain processes, such as out-of-stock items, excess inventory, and changes in delivery schedules, and is currently being tested by Nabisco to manage its relationship with Wegmans Food Markets, a regional chain. QCS Collaboration Solutions is being used as a web-based product-sourcing tool by PetSmart in the US for managing its Asian suppliers.

## Reducing Acquisition Costs

With the Internet's global reach, accessibility, and low cost, there are numerous opportunities for wholesalers, distributors, and retailers to make a positive impact on their procurement processes and costs. On the simplest level, the Internet can be used as an information resource for researching potential suppliers. However, many businesses are taking part in bidding processes or establishing buying groups over the Internet. Business Gateway serves businesses in South Carolina, matching up buyers' request for quotes and sellers' bids on-line for a monthly fee. Vipar Heavy Duty Inc. (<http://www.vipar.com>) is a buying group of 75 United States and Canadian companies that has launched a web-based electronic commerce network that tracks its collective buying power in real time. This buying network consolidates the purchase orders electronically for all members of the buying group, thereby gaining better volume discounts and rebates from suppliers.

## Conclusion

e-business offers tremendous opportunity for companies within the distribution industry of the United Kingdom to introduce new sales channels, reduce costs, streamline product flows, and ultimately improve profitability. However, there are a number of obstacles that may hinder the growth of e-business, arising from consumer concerns, business concerns, and global issues. By implementing established best practices that are being used by the Internet's most successful businesses, firms in the United Kingdom can overcome these hurdles and take advantage of the tremendous growth that is anticipated for electronic commerce.

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## Lettuce by modem

- 1 After reading her daughters, ages 3 and 5, a bedtime story, Melissa Oesterle turns on her computer and orders a week's worth of groceries. It takes her 15 minutes. Next morning a van pulls into the driveway of her Columbus, Ohio home with 20 plastic bags and 2 coolers of food.
- 2 For the convenience of using this virtual supermarket, Oesterle pays \$11.20 on top of her \$125 order plus a \$4.95 monthly fee to Peapod, a Skokie, Ill.-based publicly traded company that is the nation's largest provider of on-line food shopping. It has more than 67,000 customers in six states. To Oesterle, 32, the extra cost is worth it. "Grocery shopping used to eat up an hour and a half of my day," she says.
- 3 Some 75,000 households nationwide now buy groceries electronically. They use Peapod or a half-dozen other outfits like it. On-line grocery shopping is a growing \$5 billion market that Frederick Schneider, director of electronic commerce programs at Andersen Consulting, figures could top \$60 billion in the next ten years.
- 4 Peapod partners with big food retailers like Jewel/Osco, Safeway, Stop & Shop and Kroger in each of its principal markets. Peapod employees take the customer's order to the closest partner grocery store, squeeze the lettuce, pick out the items, then pack and deliver. Peapod charges the customer's credit card and reimburses the grocery store.
- 5 Families that routinely order the same stuff can keep a standing order that's automatically filled each week. Additions or deletions are just a mouse-click or two away. Customers can ask to see food lists sorted by nutritional or special dietary requirements, such as low-salt items.
- 6 Chairman and cofounder Andrew Parkinson, 39, and his younger brother, Thomas, 37, came up with the idea while both were working at Procter & Gamble. They quit their jobs. Andrew spent six months delivering pizzas for Domino's to learn how delivery systems work.
- 7 Starting with one grocery store contract in Chicago, the pair had sales of \$140,000 in their first year, 1990. This year sales are expected to top \$60 million. Peapod now employs 1,300 people; the company went public in June 1997.
- 8 Peapod earns profits in cities where it has been operating for several years, like Chicago and San Jose. Newer cities like Houston and Dallas won't make money until Peapod cracks 1% of the market. Parkinson builds volume by promoting the service in grocery stores: Shoppers get handouts describing the service and see Peapod employees in bright green-and-white aprons doing other people's shopping.
- 9 Because of expansion costs, Peapod will probably post a loss of \$13 million for 1997. But this year Peapod will distribute from centrally located warehouses in three cities, stocked by its partner retailers. Parkinson figures this will save customers \$5 to \$10 per order. The company should start making money in 1999, says Rita Spitz, an analyst at William Blair.
- 10 Are the big grocery chains about to jump into the on-line business, too? Not yet. "We want to see how it goes," says John DeJesus, president of Foodmaster Supermarkets, a ten-store chain in Massachusetts. "I want to see them make the mistakes first, and then I will get into it."
- 11 Andrew Parkinson figures big chains will prefer partnering with on-line firms like his rather than doing it on their own.

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**Abstract** (Document Summary)

Online grocery shopping could be the wave of the future. ATM surcharges are also discussed.

**Full Text** (355 words)*Copyright Kiplinger Washington Editors Feb 1998***ONLINE GROCERY STORES: MISSING INGREDIENTS**

Someday you'll be able to buy groceries without circling for a parking space or wresting candy from your toddler while you wait in the checkout line. That's the promise of online grocery stores, such as [NetGrocer](#) at [www.netgrocer.com](http://www.netgrocer.com). But for now, the online grocer is like the convenience store you go to in a pinch—fine for chips and juice, but hardly the rival of any well-stocked supermarket.

Forget squeezing the melons ([NetGrocer](#) sells no produce or other perishables) and expect a limited selection of other grocery items. "The typical supermarket has 30,000 items; we have 2,800 to 5,000," says Jeffrey Steinberg, vice-president of marketing for the company.

While [NetGrocer](#) advertises savings of up to 20% over traditional markets, we found prices on a small sample basket of items to be comparable to and in many cases higher than the Seattle, Wash., [Safeway](#) we chose for comparison. You won't pay sales tax on purchases unless you live in New York or New Jersey, but you'll pay \$2.99 to ship the first ten pounds and 99 cents for each additional ten pounds.

On the plus side, grocery shopping on the Net can be a timesaver. Selecting items on the Web site is easy; comparison shoppers can sort choices by unit cost or fat content; and purchases are delivered to your door. (Our sample order arrived in two days, as promised, in good condition.) You can even set up a standing order to replenish staples on a regular basis.

#### WHERE TO FIND SURCHARGE-FREE CASH MACHINES

Some 45% of ATM owners now levy a surcharge on top of the fee you pay your own bank to use a "foreign" ATM. With charges ranging from 25 cents to \$2.50, you could be paying up to 5% to get \$50 cash—more than you'd pay for a cash advance on your credit card.

You can scout out surcharge-free ATMs near your home, office or travel destination at [www.surcharge-freeatms.com/surchargefree.html](http://www.surcharge-freeatms.com/surchargefree.html). You'll find listings of ATMs without surcharges in 21 states, from Florida to Washington. Most of the ATMs belong to credit unions and small banks, which have generally resisted surcharging.

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**Abstract** (Document Summary)

Starting in September Stop & Shop customers will be able to restock their larders without setting foot in the store now that the Quincy-based supermarket chain has joined with Peapod LP to offer an on-line shopping and delivery service.

Terms of the deal were not disclosed. But Stop & Shop, which joins Shaw's Supermarkets in cyberspace, expects between 5 percent to 10 percent of its customer base to sign up for the service.

Full Text (325 words)

*Copyright Boston Herald Library Aug 06, 1996*

Kiss that grocery cart good-bye.

Starting in September Stop & Shop customers will be able to restock their larders without setting foot in the store now that the Quincy-based supermarket chain has joined with Peapod LP to offer an on-line shopping and delivery service.

Terms of the deal were not disclosed. But Stop & Shop, which joins Shaw's Supermarkets in cyberspace, expects between 5 percent to 10 percent of its customer base to sign up for the service.

Stop & Shop said the service - which can deliver groceries within three hours of placing an order - would be a boon to working parents and other time-starved consumers.

Not only will shoppers be able to call up 20,000 grocery items on their personal computers, they will be able to sort them by such variables as cost and nutritional content. Coupon clippers need not despair: the service will collect coupons on delivery and credit them against your next order.

"Our partnership with [Peapod](#) will simplify and enhance the shopping experience for our customers by increasing the ways we can serve them," said Bill Grize, president and chief operating officer of [Stop & Shop](#).

[Peapod](#) will handle the service for [Stop & Shop](#), providing both the shopping staff and delivery drivers as well as technical support to customers.

The software is free and can be obtained from Peapod's Web site at [www.peapod.com](http://www.peapod.com) or by calling 1-888-492-0042. But shopping the virtual aisle doesn't come cheap.

[Peapod](#) charges a monthly fee of \$4.95, which includes three hours of on-line shopping and Internet e-mail as well as technical support and software upgrades. Each additional hour of on-line time costs \$2.95. Shopping and delivery fees for each order come to \$4.95 plus 5 percent of the total grocery bill.

However, the Evanston, Ill.-based company noted that experienced cybershoppers can file a \$100 order in around 20 minutes versus the hour it would take to actually schlep to and from the store.

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